REPORT OF THE PROVINCIAL AUDITOR

YEAR ENDED
MARCH 31, 1990

TO THE LEGISLATIVE ASSEMBLY
OF SASKATCHEWAN

Provincial Auditor Saskatchewan

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March 25, 1991

The Honourable A. B. Tusa
Speaker of the Legislative Assembly
of Saskatchewan

I have the honour to submit my Annual Report for the fiscal year ended March 31, 1990, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of The Provincial Auditor Act.

Respectfully Submitted,

W.K. Strelioff

W. K. Strelioff, C.A.
Provincial Auditor

INTRODUCTION

.01 I am pleased to present my first Annual Report to the Legislative Assembly. It contains information concerning matters arising from audit work done during the past year which I believe warrants consideration by Members of the Legislative Assembly.

.02 Many of the observations contained in this Report arise from audits begun and completed under the direction of Mr. G. F. Wendel, C.A., former Acting Provincial Auditor. However, the conclusions and recommendations reported herein are appropriately my responsibility.

.03 I wish to thank Mr. Wendel for the diligence with which he so capably conducted the work of the Office since the retirement on November 30, 1989 of Mr. W. G. Lutz, F.C.A.. I appreciate his integrity, his thorough professionalism and his assistance as Assistant Provincial Auditor.

.04 I also wish to pay tribute to Mr. Lutz for his service to the citizens of Saskatchewan during his eighteen years as Provincial Auditor. His dedication and commitment to improving government accountability was steadfast.

Responsibilities

.05 Our Office conducts three types of examinations. We examine and report on:

- financial statements;
- compliance with legislative and other related authorities; and
- management control systems.

.06 In our examination of financial statements, we answer the question -- can you rely on the financial information provided by the organization? If we think you cannot, we tell you why.

.07 In our examination of compliance, we answer the question -- has the organization complied with the main legislative authorities governing its financial activities? If we think it has not, we tell you which authorities and we explain the circumstances.

.08 In our examination of management control, we answer the question -- has the organization established sound methods for safeguarding assets, for complying with legislative authorities and for preparing reliable information? If we think it has not, we tell you the problem.

.09 In many cases, we conduct our examinations directly. However, in other cases, e.g., major Crown corporations, we work with appointed public accounting firms.

.10 Our annual report summarizes the results of our work and comments on matters we think should be brought to the attention of the Legislative Assembly.

.11 The matters we comment on usually relate to problems. In the past, our Office has found that Members of the Legislative Assembly are particularly interested in matters requiring correction. As a result, we do not usually comment on our positive findings. Those positive findings constitute by far the typical situation we find when carrying out our work.

.12 In 1990-91 our work covered over 190 organizations established by Government to carry out policies and services. Those organizations include government departments, universities, hospitals, regional care centres, pension funds, telecommunication and power utilities, commissions and boards.

.13 In 1990-91, our office complement was 50. Most are professional accountants or students working towards a professional accounting designation. Five are administrative professionals.

.14 We are particularly enthusiastic about the student training aspect of our Office. Twenty of our staff are recent university graduates working towards their professional accounting designation. The programs are difficult and take about three years. Once the students earn their designation, some continue with our Office while others seek opportunity elsewhere. Many of those who have left continue to contribute to Saskatchewan as senior financial officials in the public sector.

Organization of Report

.15 Our annual report comments on matters we think should be brought to the attention of the Legislative Assembly. It contains chapters for government departments and those organizations responsible to the department. It also contains chapters for Crown corporations.

.16 In addition, we provide separate chapters for matters that cross government organizational lines of authority. These chapters relate to Public Accountability, How We Audit and Report, Accountability Process, Corporation Accountability, and The Tabling of Documents Act.

.17 Appendix I contains a copy of The Provincial Auditor Act. Appendix II contains reports from appointed auditors. Appendix III contains a list of incomplete audits. Appendix IV contains a list of financial statements that were tabled late and Appendix V contains examples of the audit opinions we form.

.18 I wish to thank the staff and officials of departments and other government organizations audited by my Office for their cooperation and assistance. With few exceptions, we were provided the information and explanations required in the conduct of our work. Also, I acknowledge the dedicated efforts of the staff of our Office. Their contribution has been essential for the continuing achievement of our responsibilities.

W.K. Strelioff

Regina, Saskatchewan
March 8, 1991

W. K. Strelioff, C.A.,
Provincial Auditor

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1990

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CHAPTER 1

PUBLIC ACCOUNTABILITY

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CHAPTER 1

PUBLIC ACCOUNTABILITY

.01 During the next year, our Office will focus on issues pertaining to much needed improvements in public accountability.

.02 Those issues relate to the nature and timing of the accountability reports provided by the Government. They also relate to the work we do and how we carry out that work.

The Main Financial Statements of the Province

.03 One of our major priorities is improving the usefulness of the main financial statements now provided to the Legislative Assembly and the public. Those statements (called the Combined Funds statements) are confusing, incomplete and often issued late.

.04 As a result, legislators and the public are not provided the information required to understand and assess the tough questions faced by our Government.

- do taxes need to be increased or decreased?
- can we afford our current level of programs and services?
- how do we maintain our infrastructure -- roads, schools and hospitals critical to our future?

.05 The main financial statements represent the Government's key accountability report. Through these statements, the Government accounts for its management of the financial activities and resources entrusted to it by the public. These statements provide important measures of revenues raised, how those revenues were spent, and how the annual deficit was financed. In addition, the statements provide accumulated measures of what we owe (liabilities) and what we have on hand to pay for what we owe (financial assets).

.06 During the next year, our Office will strongly encourage the Government to make those financial statements more relevant. Our benchmark will be the recommendations of the Canadian Institute of Chartered Accountants (CICA). That Institute's Public Sector Accounting and Auditing Committee (PSAAC) has made considerable progress in establishing sound accounting practices for governments. PSAAC's recommendations represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting from across Canada.

.07 In this annual report, we express significant disagreement with the manner the Government values a $555 million loan (see Chapter 17). We believe the loan should be written off as it has no economic value because the Government's claim is on itself.

.08 This loan is one of several major issues that need to be examined.

.09 A second issue is how the Government should properly reflect the value of the Province's investment in Crown corporations. At present, the value is reflected at cost.

.10 A more relevant accounting practice, recommended by the CICA, is to adjust the value of these investments each year to reflect the earnings of corporations. If this practice was followed, legislators and the public would be better able to assess the impact Crown corporation's financial results have on the finances of the Province. This impact is significant.

.11 A third major issue is the Province's liability for unfunded pension obligations. At present, this liability is not recorded. It is, however, discussed in the detailed notes to the financial statements. At March 31, 1990, it was reported as $2.4 billion.

.12 A more relevant accounting practice, recommended by the CICA, is to record the liability in the statement of financial position. Both legislators and the public would then be provided with a more complete accounting of the total liabilities of the Province. In addition, the full cost of government services and programs would be better reflected. Such cost information is needed to assess program delivery choices.

.13 The fourth issue relates to the infrastructures built by our governments. Such structures include hospitals, schools and highways. Currently, very little information is provided concerning these significant investments. Information is required to understand and assess the government's management of our infrastructure, as well as the future expenditures required for maintenance and replacement.

Timely Financial Statements

.14 The Government is working towards publicly releasing the Province's main financial statements more quickly. My Office fully supports this important initiative. The statements for the year ended March 31, 1990 were released in December 1990, over 3 months earlier than the previous year. The Government plans to release the 1991 main financial statements in late August. This is a much needed initiative requiring significant effort by many Government officials.

The Public Accounts

.15 The Public Accounts consist of three volumes. Volume 1 includes the main financial statements of the Province as well as two special purpose statements and supplementary schedules.

.16 Volume 2 includes the financial statements of many special funds, revolving funds and of other organizations whose financial statements are not tabled separately in the Legislature.

.17 Volume 3 includes details of revenue and expenditure including lists of payees.

.18 The Public Accounts are confusing. Even those who work with financial information on a daily basis find it extremely difficult to understand what financial information is included in the Public Accounts and what is not. Some readers say there is too much detail while others say there is not enough.

.19 Some readers cannot understand how the information in one volume relates to another. Other readers question why specific information is provided about some government activities (e.g., departments) but only general information about other activities, (e.g., Crown corporations). These readers argue for an equal standard of accountability for all government organizations, believing that all aspects of public business should be public.

.20 In addition, many readers question why it takes so long to prepare and publish the Public Accounts. The Accounts are usually not available until 12 months or more after the year end.

.21 The Government has announced plans to improve the usefulness of the Public Accounts. The first proposal is to prepare the Accounts by November. In addition, the Government plans to ask the Public Accounts Committee to examine information that should be provided. My Office fully supports these important initiatives.

Value-for-Money Examinations

.22 In *A New Agenda for Public Accountability* issued in November, the Government said, "The public, through Consensus Saskatchewan has indicated that the Provincial Auditor's responsibilities should be expanded to include a value-for-money mandate". The Government also stated it "will examine the options for value-for-money auditing with the Provincial Auditor".

.23 Our Office strongly supports this important initiative. We are now examining which approach would best serve the Members of the Legislative Assembly.

.24 While we have the authority to conduct value-for-money audits, we have proposed changes to The Provincial Auditor Act to give explicit direction for reporting on these audits. We are working with the Department of Finance on these changes and understand these changes will be proposed to the Legislative Assembly as soon as possible.

.25 In February, the Board of Internal Economy approved funding to ensure our Office continues our value-for-money work in 1991-92. We plan to include the results of that work in next year's report.

.26 In value-for-money examinations, the auditor examines whether rules and procedures exist to ensure both economy and efficiency in the acquisition and use of resources. The auditor also examines whether rules and procedures exist to measure and report on the effectiveness of programs. The merits of program policies or objectives are not called into question.

.27 At present, all legislative auditors in Canada, except

Newfoundland, conduct value-for-money type audits. Newfoundland is now moving in this direction. Professional standards for such audits are established by the Canadian Institute of Chartered Accountants.

Our Relationship with Appointed Public Accounting Firms

.28 Currently, we work with appointed public accounting firms to carry out a significant portion of our responsibilities. These responsibilities relate primarily to major Crown corporations. Public accounting firms examine these corporations and provide our Office with several reports. We review these reports and supporting working papers to determine whether our Office can rely on them. We then report to the Legislative Assembly. Our Office does additional work only when we believe such work is necessary.

.29 In this annual report and in previous reports, we note problems in completing our work due to delays in receiving necessary information. Reasons for the delays have been difficult to sort out.

.30 During the next year, our Office plans to examine how we carry out our responsibilities through appointed public accounting firms. Our objective is to improve the existing system or to recommend changes to that system.

The Independence of our Office

.31 In previous reports, our Office has stressed that accountability could be strengthened if funding for our Office was set by a Committee of the Assembly.

.32 In December 1990, the Minister of Finance asked the Board of Internal Economy to review our Office's budget for 1991-92. Members of the Board agreed and, in February 1991, the Board approved our funding proposals for consideration by the Legislative Assembly.

.33 We have proposed changes to The Provincial Auditor Act to ensure the Board of Internal Economy continues to review our funding proposals in the future. We are working with the Department of Finance and understand those changes will be proposed to the Legislative Assembly as soon as possible.

Strategic Planning by our Office

.34 Like all public sector organizations, our Office faces important but difficult challenges. These challenges range from working toward improvements in the Government's accountability reports to carrying out complex value-for-money examinations.

.35 To help us concentrate our resources and efforts, we have initiated a strategic planning process. We are examining what we do as well as how we do it. We plan to include a summary of our conclusions in next year's report.

CHAPTER 2

HOW WE AUDIT AND REPORT

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CHAPTER 2

HOW WE AUDIT AND REPORT

General

.01 The Provincial Auditor Act requires our Office to audit all the accounts of the Government of Saskatchewan and report to the Legislative Assembly. Every agency of the government is subject to an annual audit by the Provincial Auditor.

.02 The law requires our Office to audit the accounts of government agencies using generally accepted auditing standards and to form the following opinions:

- the accounts have been faithfully and properly kept;
- public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

Description of the Way We Conduct our Audits

.03 We discharge our responsibilities by reviewing control systems and by conducting tests and other procedures considered necessary. When we complete these tests and procedures we form audit opinions on:

- the adequacy of the control systems used by an agency to safeguard and control public money;
- an agency's compliance with the law with regard to its spending, revenue raising, borrowing and lending activities; and
- the financial statements prepared by

management of an agency.

.04 When, in our opinion, the control systems used by an agency are not satisfactory we audit additional transactions whenever possible. We do this to find out whether, for those transactions selected:

- there was any willful or negligent non-collection of public money;
- public money has been duly accounted for and paid into the appropriate fund;
- appropriations were exceeded or applied to unauthorized purposes;
- expenditures had adequate authority and were properly vouchered or certified; and
- there has been a deficiency or loss to the crown.

.05 The opinions in paragraph 3 and the results of the additional audit procedures in paragraph 4 form the basis for this annual report. Appendix V to this report contains examples of the three opinions formed in paragraph 3.

Exception Reporting

.06 This report focuses on those agencies where we are not satisfied with their control systems, compliance with authorities or financial statements.

.07 When, in our opinion, an agency's control systems, compliance with authorities and financial statements are satisfactory we do not comment on the agency in our report. Also, the law does not require us to report on matters that are immaterial or insignificant.

.08 This report is, therefore, an exception report of the matters we feel need the attention of the Legislative Assembly. The report by its nature does not give credit where, in our opinion, the administration of public money was satisfactory.

Limitations of an Audit

.09 Our audit may not find all errors, irregularities or fraud that could be reported since we do not examine all transactions. It is not possible to attain absolute assurance because of the inherent limitations of internal control, the need for judgement, and the use of testing. Also, a system that is satisfactory today, may not be so in the future.

Relationship with Appointed Auditors

.10 The law permits another auditor (appointed auditor) to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money. The law also permits us to rely on the appointed auditor to fulfill our responsibilities.

.11 Where an appointed auditor examines the accounts of an agency, that auditor is not a substitute for the Provincial Auditor. We continue to be responsible to form the opinions set out in paragraph 3.

Audit Risk

.12 For the year 1989-90, appointed auditors examined approximately 50% of public spending. Since we continue to have responsibility for the audit of all public money, our reliance on appointed auditors increases our audit risk in the discharge of our responsibility.

.13 We must evaluate audit risk each year. We manage audit risk by performing audit procedures at individual entities. The extent of these direct audit procedures at individual entities is a matter of professional judgement.

.14 We reduced our audit risk to an acceptable level for the 1990 fiscal year by communicating with the appointed auditors, reviewing their work and reports, and conducting limited direct audit procedures at the individual entities, except where noted in this report.

Co-operation with Appointed Auditors and Crown Agencies

.15 Where there is an appointed auditor, it is imperative that there is full co-operation among all parties, including the Crown agency. Where there is not full co-operation, members may not receive the information required under The Provincial Auditor Act. We received co-operation except where noted in this report.

.16 We explained in our 1988 annual report that it is not possible to determine if reliance on an appointed auditor is justified until after the year end. Where reliance is not justified, it is not possible to conduct additional audit work on the management control systems because the year end has passed. Audit work on control systems needs to be done during the year under review or shortly after because of the need to observe how control systems actually operate. In these cases Members will not receive the information required under The Provincial Auditor Act.

Appointed Auditor's Work and Reports

.17 The law permits reliance on appointed auditors when their work and reports are satisfactory. If we are not satisfied, we must by law conduct our own audit procedures and report the reason for the non-reliance, the nature of the additional audit work and the results, to the Legislative Assembly.

.18 The law permits appointed auditors to conduct their audits of public money in the manner they consider necessary using generally accepted auditing standards. The appointed auditors must prepare reports on the results of their audits, which are to be submitted to the Provincial Auditor. The law requires us to compile these reports and include them as part of this annual report.

.19 Appendix II contains a list of the reports received from appointed auditors' indicating nothing of significance to be reported in accordance with Section 12 of The Provincial Auditor Act. Since this annual report is an exception report (see paragraphs .07 and .08), the contents of these reports have not been reproduced.

.20 Where the appointed auditors' reports indicated there were matters to be reported in accordance with Section 12 of The Provincial Auditor Act, the contents of these reports have been reproduced in Appendix II.

.21 At the date of this report, discussions continue with appointed auditors and work remains to be completed by this office for some Crown agencies audited by appointed auditors. Therefore, we have been unable to determine whether or not we can rely on their reports. A list of these Crown agencies is contained in Appendix III. The Appendix also contains a list of Crown agencies where we have not received the appointed auditors' reports.

CHAPTER 3

ACCOUNTABILITY PROCESS

Rule of Law

.01 Our system of government is modelled after the British Parliamentary System and is based on the principle of the rule of law.

.02 The Legislative Assembly of Saskatchewan (Assembly) has the pre-eminent position in this system because it enacts the laws by which we are governed.

.03 The Executive government is subordinate to the Assembly because it operates under and is constrained by laws passed by the Assembly.

.04 A basic principle of our parliamentary system of government is that the Executive government shall not collect revenue, make expenditures or incur debt without the permission of the Assembly.

Accountability of the Executive Government

.05 The Executive government is accountable for its exercise of power both through the courts and directly to the Assembly. Accountability means to give reasons for and explanations of one's actions.

.06 A large part of the Executive government's accountability to the Assembly is fulfilled by the provision of financial information contained in the Public Accounts and annual reports of Crown agencies, and other information provided to the Assembly.

.07 The extent of the Executive government's accountability to the Assembly depends upon the usefulness of the information provided to the Assembly. The usefulness of information decreases as time elapses.

Independent Legislative Auditor

.08 Another important aspect of the Executive government's accountability to the Assembly is the existence of an independent legislative auditor, the Provincial Auditor.

.09 The Provincial Auditor is an Officer of the Assembly responsible to audit all the accounts of the

Executive government and report to the Assembly on the Executive government's stewardship reports (financial information) and the Executive government's quality of administration of public money.

.10 Safeguards have been provided by the Legislature through The Provincial Auditor Act to ensure the Provincial Auditor's independence from the Executive government except for the funding for the Office.

.11 In February 1991, at the request of the Minister of Finance, the Board of Internal Economy reviewed and approved the Provincial Auditor's spending estimates for 1991-92.

.12 In addition, the Government recently announced that it will introduce legislation in the next session to have the Provincial Auditor's spending approved by the Board of Internal Economy. This change will enhance the Provincial Auditor's perceived independence and improve accountability.

CHAPTER 4

CORPORATION ACCOUNTABILITY

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CHAPTER 4

CORPORATION ACCOUNTABILITY

Tabling of Financial Statements

.01 The government administers a substantial amount of public money through corporate entities.

.02 These corporations are created under:

- a special Act of the Legislature, e.g. Saskatchewan Power Corporation, Saskatchewan Telecommunications.
- an Order in Council under The Crown Corporations Act, 1978, e.g. Saskatchewan Forest Products Corporation, Souris Basin Development Authority.
- a Business Corporations Act.

.03 Examples of corporations created under a Business Corporations Act fall into three categories:

- the crown owns 100% of the issued share capital of the corporation, e.g. CIC Industrial Interests Inc., SaskEnergy.
- the crown owns 51 - 99% of the issued share capital, e.g. CAMECO, Westbridge Computer Corporation.
- the crown owns less than 51% of the issued share capital, e.g. Newgrade Energy Inc., SaskOil (voting interest).

.04 Corporations created under a special Act of the Legislature and by an Order in Council under The Crown Corporations Act, 1978 must table an annual report in the Assembly.

.05 The law does not require corporations created under a Business Corporations Act that are partially or wholly owned by the Crown to table an annual report in the Assembly.

.06 The Standing Committee on Public Accounts discussed this matter as it pertained to corporations whose shares are 100% owned by the Crown. In its report of November 3, 1987, the Committee recommended:

> *"That the Committee recommend that the Government consider preparing legislation to ensure that the duly audited financial statements for Crown Agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."*

.07 At the date of this report, legislation has not been enacted.

.08 In 1990, The Standing Committee on Public Accounts discussed the accountability to the Legislative Assembly of corporations created under a Business Corporations Act where the Crown owns less than 100% of the issued share capital. The Committee has not yet made a recommendation regarding these corporations.

Equal Accountability

.09 In our previous annual reports, we state that Crown corporations do not provide the Assembly with sufficient information to allow a detailed investigation of government spending.

.10 For example, when a government department spends public money the Assembly receives a list of the persons who received money. This information allows the Assembly, and the public, to question payments.

.11 Crown corporations do not provide the Assembly with a list of the persons who received money. As a result there is not full accountability.

.12 The government recently announced it will increase disclosure requirements for government organizations funded primarily by tax dollars so that they are truly accountable.

.13 This will be an important step towards equal accountability for all government organizations. However, this step does not include Crown corporations such as

Saskatchewan Power Corporation and Saskatchewan Telecommunications. In our opinion, the increased disclosure requirements should apply to all government organizations. They should be equally accountable to the Assembly.

CHAPTER 5

THE TABLING OF DOCUMENTS ACT

Requirements

.01 The Tabling of Documents Act governs the timing of the preparation and submission of most annual reports of government organizations. One objective of the Act is to provide annual reports to Members early in any session of the Legislature.

.02 The Act requires the annual report for a government organization to be forwarded to the proper official for tabling in the Assembly within ninety days of its fiscal year end. The Act also requires the official who receives the annual report to table the report in the Assembly. The official must table the annual report within fifteen days after the commencement of a session of the Legislature or within fifteen days after receiving the report, whichever is later.

.03 The fifteen day requirement appears to mean fifteen calendar days. However, we have been informed by the Clerk of the Legislative Assembly that an established convention is used that means fifteen days is fifteen sitting days of the Assembly.

Audit Findings

.04 As part of our audit, we check whether organizations comply with the Act when their annual report contains financial statements.

.05 During our audit we found instances where annual reports were not prepared within ninety calendar days or were not tabled within fifteen calendar days.

.06 The list of organizations not complying with the Act are listed in Appendix IV. The list excludes those organizations that did not table within the fifteen calendar days, but did table within the established convention of fifteen sitting days. It also excludes those organizations that did not submit their annual reports within ninety calendar days of their fiscal year end if they tabled their report on time. We did not report these organizations as they achieved the overall objective of the Act -- to provide annual reports early in any session of the Legislature.

.07 If the established convention of 15 sitting days is to continue, we suggest the Act be changed.

CHAPTER 6

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

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CHAPTER 6

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

Public Accountability

.01 Our 1989 report states as of March 9, 1990 we had not completed our audit of the Corporation for the year ended March 31, 1989. The appointed auditor did not submit the required reports to us in a timely manner.

.02 The audit for 1989 is now complete. Our audit for 1990 is not complete. The appointed auditor has not submitted required reports in a timely manner. In our opinion, these delays impair the Corporation's public accountability.

Herd Inspections

.03 For the year ended March 31, 1989 we found the Corporation's rules and procedures to safeguard and control public money were inadequate.

.04 The Corporation manages a livestock cash advance program. This program provides farmers interest free loans for 12 months based on livestock numbers. The farmer must repay the loan within 30 days if the agreed upon number of livestock are no longer on hand.

.05 In the past, the Corporation did surprise herd inspections to ensure the agreed upon number of livestock were on hand. During the year ended March 31, 1989 the corporation changed its herd inspection policy. It no longer did surprise herd inspections.

.06 The Corporation's new procedures required farmers to submit a herd verification statement within 6 months of the loan anniversary date. This statement must be signed by a brand inspector or a veterinarian.

.07 Since farmers now decide when herd counts are done, shortfalls in herd numbers may not be reported in a timely manner. This allows farmers to avoid payment of interest for unreported reductions in herd size without timely detection by the Corporation.

.08 Also, additional loan losses could result if farmers do not repay their loans from the proceeds of the sale of their herds.

.09 We are told that the Corporation is now doing random herd counts.

Segregation of Duties

.10 The Corporation did not adequately segregate the duties of persons using its computer systems. Segregation of duties is inadequate when one person can conceal an error or fraud. With computer systems, persons who design changes to computer programs should not be able to implement those changes.

.11 A consulting firm had the ability to implement changes to programs without the Corporation's knowledge. Senior staff from the consulting firm also could modify the Corporation's security tables without its knowledge and approval.

.12 This lack of segregation of duties could result in corporate data being manipulated or lost without timely detection.

Contingency Plan

.13 The Corporation should have a written and tested plan that ensures continued operations in the event of a major loss or destruction of its records. It also must keep copies of important computer files to aid in the reconstruction of the records.

.14 We found the Corporation did not keep copies of its computer files required for a timely and efficient reconstruction of its records. We also found the Corporation did not have a written and tested plan to ensure it can recover in a timely and efficient manner in the event of a major loss or destruction of its records.

CHAPTER 7

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN

Public Accountability

.01 Our 1989 annual report states as of March 9, 1990 we had not completed our audit of the Corporation for the year ended December 31, 1988. The appointed auditor did not submit the 1988 required reports to us in a timely manner. We received the final reports for December 31, 1988 on January 4, 1991.

.02 The appointed auditor also has not submitted required reports for 1989 in a timely manner and, as a result, our audit for 1989 is not complete. In our opinion, these delays impair the Corporation's public accountability.

Policies and Procedures Manual

.03 Our 1988 annual report states that the Corporation did not have current and complete policy and procedures manuals during its 1987 year. Our concern was that changes in staff or staff duties could cause a breakdown of control due to the lack of these manuals. Our concern continues as the manuals remain out of date and incomplete.

Segregation of Duties

.04 In addition, the Corporation did not adequately segregate the duties of employees. Segregation of duties is inadequate when one person can conceal an error or fraud.

.05 Due to the limited staff size of the Corporation a complete segregation of duties was not practical. Also, the board of directors was not involved in day to day operations and there were no other controls to prevent or detect errors or unauthorized transactions.

Loss of Public Money

.06 The lack of the control procedures described above contributed to a $534,000 loss by the Corporation. The loss occurred when an employee executed future sales contracts at fixed prices. The employee responsible, however, did not secure purchase contracts at fixed prices for those future sales contracts.

.07 In our opinion, the loss was in part caused by the absence of a current and complete policy and procedures manual with specific procedures for employees to follow. The situation remained undetected for a period of time. In our opinion, this was primarily due to the lack of segregation of duties surrounding sales contracts, purchase contracts and reporting.

CHAPTER 8

BOARD OF INTERNAL ECONOMY

Per Diem Expenses

.01 During the audit we observed the Speaker did not certify payments for members' sessional per diem expenses.

.02 Section 65(1)(c) of The Legislative Assembly and Executive Council Act states:

> *"the sum due to a member at the close of a session with respect to amounts payable pursuant to section 42 and those provisions of section 50 that the Board of Internal Economy may authorize shall be calculated and paid to him by the Minister of Finance on the receipt by that minister of a solemn declaration made by the member, which declaration shall show . . .the amount of his expenses as determined and certified by the Speaker."*

.03 As the Speaker has not certified members' sessional per diem expenses, these payments were not properly authorized according to Section 65(1)(c) of the Act.

.04 The Speaker began to certify these expenses on March 19, 1990, effective with the commencement of the fourth session of the twenty-first Legislature.

CHAPTER 9

CAMECO - A CANADIAN MINING AND ENERGY CORPORATION

Public Accountability

.01 Our 1989 annual report states as of March 9, 1990 we had not completed the audit of CAMECO for the year ended December 31, 1988.

.02 We had not received the necessary reports and information from the appointed auditors. Officials of CAMECO did not allow the appointed auditor to perform the required work and provide the necessary information.

.03 In November 1990, after much discussion, CAMECO agreed to allow its appointed auditor to perform the necessary work and provide us all the related information.

.04 Accordingly, our audits for 1988 and 1989 are done. Although late, we can now form our opinions and report to the Legislative Assembly. Unfortunately, we are unable to report on the adequacy of CAMECO's management control systems since audit work on control systems must be done during the year under review or shortly after. Auditors need to observe how control systems actually operate.

.05 In our opinion, public accountability to the Legislative Assembly was not well served.

.06 However, CAMECO has agreed that its auditor will report on the management control systems for the year end 1990.

CHAPTER 10

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

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CHAPTER 10

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Public Accountability

.01 The Crown Corporations Act, 1978 requires the Crown Investments Corporation of Saskatchewan (CIC) to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

.02 The appointed auditor gave an unqualified auditor's report on CIC's consolidated financial statements for the year ended December 31, 1989 (See paragraph .15).

.03 The Provincial Auditor Act requires us to give details of any reservation of opinion made in our auditor's report.

.04 Our opinion on the consolidated financial statements of CIC for the year ended December 31, 1989 contains a reservation.

.05 Our auditor's report advises that CIC's financial statements are not in accordance with GAAP. The financial statements inappropriately mix CIC's financial results with the financial results of "Part II" Crown corporations such as Saskatchewan Power Corporation.

.06 We base our opinion upon the basic principle of the accountability of the executive government to the Legislative Assembly. That is CIC (executive government) should provide financial statements that show how it managed the assets entrusted to it by the Assembly. In our opinion, CIC is not entrusted with the assets of the Part II Crown corporations such as Saskatchewan Power Corporation.

.07 CIC's public accountability to the Assembly is not well served with the current financial statements. Those financial statements do not give the Assembly the information needed to judge CIC's management of the assets entrusted to it by the Assembly. The financial statements incorrectly mix the financial results of CIC with the financial results of the "Part II" corporations.

.08 Our opinion on the December 31, 1989 consolidated financial statements follows:

> *Note 1a to the consolidated financial statements explains that, in addition to the financial results of the subsidiary companies of Crown Investments Corporation of Saskatchewan, these consolidated financial statements include the financial results of those corporations designated by the Lieutenant Governor in Council as subject to Part II of The Crown Corporations Act, 1978. Generally accepted accounting principles require that when a company has one or more subsidiaries, that company's financial statements should be prepared on a consolidated basis, except where the parent company does not have control over the subsidiary's assets or operations and in certain other specific situations. This precludes from consolidation the financial results of companies that are not subsidiaries. Since the corporations subject to Part II of The Crown Corporations Act, 1978 are not subsidiaries and since the Legislature has not delegated control of these corporations to Crown Investments Corporation of Saskatchewan, the requirements under generally accepted accounting principles for inclusion of their financial results in these consolidated financial statements have not been met. In this respect, these consolidated financial statements are not, in my opinion, presented in accordance with generally accepted accounting principles.*
>
> *The corporation's long-term investments includes an investment in shares of an investee company accounted for on an equity basis, where the corporation does not exercise significant influence. In this respect, these consolidated financial statements are not, in my opinion, in accordance with generally accepted accounting principles.*
>
> *Had consolidated financial statements been prepared for Crown Investments Corporation of Saskatchewan and the subsidiary companies it controls and had the investment in an investee company been accounted for on a cost basis, virtually every account in, and the*

information provided by way of notes to, the accompanying financial statements would be materially different.

In my opinion, because these consolidated financial statements include the financial results of corporations that are not subsidiaries and because an investment in shares of an investee company are accounted for on an equity rather than on a cost basis as described in the preceding paragraphs, these consolidated financial statements do not present fairly the consolidated financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Payments Require Legislative Authority

.09 Section 16 of The Interpretation Act states in part:

> *"16(1) words authorizing the appointment of a public officer or functionary include the power:*
>
> *(e) of fixing his remuneration and expenses and varying or terminating them;*
>
> *in the discretion of the authority in whom power of appointment is vested."*

.10 Members of the Board of Directors of CIC are appointed by Order in Council as required by subsection 23(2) of the Crown Corporations Act, 1978. The Orders have not specified the remuneration and expenses to be paid to the members of the Board.

.11 In our opinion and in the opinion of our lawyer, Section 16 of The Interpretation Act requires the remuneration and expenses paid to members of the Board to be fixed by Order in Council. CIC's legal advice is to the contrary.

.12 CIC paid $393,893 for remuneration and expenses to the full time Chairman and other members of the Board who were not Members of the Legislative Assembly.

.13 In our opinion, the payments made to the full time Chairman and those other members of the Board lack legislative authority.

.14 We discussed this matter with CIC. CIC is of the opinion that an Order in Council is not required to fix such remuneration and expenses. We were told, however, CIC will seek Orders in Council to authorize future payments to members of the Board to resolve any doubt on the issue.

Appointed Auditor's Report

.15 We relied on the appointed auditor except for the report on CIC's financial statements. We have a difference of opinion as to whether CIC's financial statements are appropriate. The appointed auditor accepted CIC's financial statements. In our opinion, CIC's financial statements are inappropriate.

.16 The Provincial Auditor Act requires us to conduct additional audit procedures where we are unable to rely on the report of an appointed auditor.

.17 The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct additional audit procedures to discharge our responsibilities.

CHAPTER 11

DEPARTMENT OF AGRICULTURE AND FOOD

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CHAPTER 11

DEPARTMENT OF AGRICULTURE AND FOOD

Spending Controls

.01 Our system of government works on the principle that the Assembly must approve all spending of the Executive (departments). The Assembly sets aside money for departments to spend each year. A department's spending in any year is limited to the amount set aside for that year.

.02 The Financial Administration Manual (FAM) issued by the Department of Finance is an aid in enforcing this principle. FAM governs the way the Department must record refunds of prior years' expenditures. The FAM requires all departments to record these refunds as current revenue. They must not reduce current year expenditure for these refunds. If a department deducted these refunds from current year expenditures it might spend more than the amount set aside for that year by the Assembly.

.03 The Department recorded a refund of prior year expenditures of $756,990 as a reduction of current year expenditures contrary to FAM requirements.

.04 In our opinion, the Department rendered the Assembly's spending controls ineffective by the amount of this refund.

CONSERVATION AND DEVELOPMENT REVOLVING FUND

.05 Officials of the Department manage the Conservation and Development Revolving Fund. The Department uses the Fund to finance and account for the operations of the Department's farms.

Budgets and Timely Financial Statements

.06 Management is responsible for establishing budgets and providing timely financial information to control the operations of the Fund.

.07 Section 1010 of FAM governs the operation of Revolving Funds. This section requires officials to submit annual budgets to Treasury Board for approval. It also requires officials to submit quarterly financial statements to Treasury Board within thirty days after the close of the quarter.

.08 For the 1989/90 fiscal year, management did not prepare a budget for the Fund. Management also did not prepare financial statements for the quarter ending September 30, 1989. In addition, it took management seven months to complete the June 30, 1989, quarterly financial statements.

.09 To prepare timely and accurate financial statements management needs to faithfully and properly keep the accounts of the Fund.

.10 The Provincial Comptroller makes payments for the Department and charges these payments to the Fund's appropriation. The Comptroller makes payments based on vouchers authorized by the Department. The Comptroller also credits money received from the Department to the Fund's appropriation.

.11 The Comptroller provides reports detailing transactions charged or credited to the Fund's appropriation. Management prepares the annual and quarterly financial statements for the Fund from these reports.

.12 For the fiscal year 1989-90 the Department did not ensure the reports received contained the transactions authorized. As a result the Department lacked assurance that the reports were accurate and complete.

.13 In our opinion, management did not have adequate controls to permit the preparation of accurate financial statements.

Controls Over Cash Receipts

.14 Management needs controls to protect public money against loss from unauthorized use or disposition.

.15 Section 510 of the FAM requires all cheques, money orders and other similar negotiable instruments to be endorsed immediately upon receipt. It also requires reconciliation of the money received to the money deposited and recorded.

.16 We observed cheques were not endorsed immediately upon receipt. Further, management did not reconcile the money deposited to the cash receipts.

.17 In our opinion, management did not have adequate controls to protect public money against loss from unauthorized use or disposition. Further, the Department did not comply with Section 510 of the FAM.

HORNED CATTLE FUND

Supervision of Employees

.18 During the year a forage association repaid a loan of $64,067. Staff incorrectly recorded the money received as revenue. They should have recorded the money received as a repayment of the loan.

.19 In addition, the Department made a loan of $39,450 to an agricultural society. Staff incorrectly recorded the loan as an expenditure rather than as a loan.

.20 We discussed the errors with management. They chose to correct the records and financial statements for the year ended March 31, 1990.

.21 Management needs to supervise employees more carefully to ensure that transactions are correctly recorded.

Controls Over Cash Receipts

.22 The Livestock Branch of the Department (Branch) issues prenumbered receipt books to livestock inspectors. Inspectors use these books to record Cattle Marketing and Horned Cattle deductions paid by cash. Annually, inspectors return unused receipts and copies of used receipts to the Branch. The Branch, however, does not reconcile receipts issued, cash received and unused receipts. As a result, the Branch does not know if all revenue is properly recorded.

.23 In our opinion, management's supervisory control could be improved.

Ability to Know if Public Money was used for Authorized Purposes

.24 In addition, the loan to the agricultural society in paragraph .19 was for the purpose of employing casual workers on a Departmental project. The Department did not ask the society to provide periodic reports, supported by evidence of authorized expenditures, with respect to the use of the loan.

.25 Therefore, the Department did not know if the Agricultural Society used public money for authorized purposes.

CHAPTER 12

DEPARTMENT OF CONSUMER AND COMMERCIAL AFFAIRS

AGRICULTURAL IMPLEMENTS BOARD

.01 The Department of Consumer and Commercial Affairs administers the Agricultural Implements Act.

Appropriation Authority

.02 Section 52 of the Act states:

> *"Sums required for the purposes of this Act may be paid from moneys appropriated by the Legislature for such purposes."*

.03 The Estimates do not set out a separate appropriation for the costs of administering the Act.

.04 During 1989/90, the Department spent $25,000 to administer the Act. It charged these costs to an appropriation called Licensing and Investigation.

.05 In our opinion, the Department applied the Licensing and Investigation appropriation in a manner not authorized by the Legislative Assembly.

.06 We also reported this matter in our 1988 and 1989 annual reports.

.07 Our 1988 annual report states the Minister in charge of the Department advised us:

- from an administration point of view, the Department does not support a separate appropriation;
- the Department recognized the law required a separate appropriation;
- Treasury Board denied the Department's request for a separate appropriation; and
- when the Act requires other changes, the Department intends to introduce changes to the Act to correct the problem.

SASKATCHEWAN GAMING COMMISSION

.08 The Commission was established under The Crown Corporations Act, 1978.

Bonding of Employees

.09 Section 17 of the Act requires the bonding of certain employees:

> *"All persons employed by a corporation who in the course of their employment receive or disburse cash, and any other officers or employees that may be considered advisable, shall be bonded in such sums as may be required by the corporation for duly accounting for moneys or goods which come into their hands or under their control."*

.10 We observed the Commission did not bond employees who in the course of their employment received or disbursed cash.

.11 In our opinion, the Commission did not comply with Section 17 of the Act.

CHAPTER 13

DEPARTMENT OF ECONOMIC DIVERSIFICATION AND TRADE

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CHAPTER 13

DEPARTMENT OF ECONOMIC DIVERSIFICATION AND TRADE

Authority for the Revenues and Expenses Related to a Trade Show

.01 The Department did not deposit revenues totalling $175,495 into the consolidated fund and the Legislature did not appropriate money for department expenditures totalling $175,458.

.02 In July, 1989, the Department executed an agreement with Saskatchewan Economic Development Corporation (SEDCO). SEDCO agreed to provide certain banking services for the Business Opportunities Saskatchewan '89 Trade Show sponsored by the Department.

.03 The services included opening a bank account to receive the Department's revenues from the trade show and paying the Department's related expenses. The Department did not record these revenues and expenses in its accounts.

.04 Section 25 of The Financial Administration Act states:

> *"All public money, other than:*
>
> *(a) public money over which the Legislature has no power of appropriation; and*
>
> *(b) money otherwise specially disposed of by the Legislature;*
>
> *is to form one consolidated fund to be appropriated for the public services of Saskatchewan."*

.05 In our opinion, the Department did not comply with Section 25 of the Act because it did not deposit the revenue from the Trade Show into the Consolidated Fund, and the trade show expenditures were not appropriated by the Legislature. As a result, the Public Accounts do not include these revenues and expenses.

.06 In addition, the Department can only collect those revenues that the law allows it to collect. It lacks authority to collect revenues from the trade show.

Controls Over Venture Capital Tax Credits

.07 The Department manages the Business Development Program. This program allows taxpayers who make eligible investments a reduction of their provincial income taxes.

.08 The Department issues Venture Capital Tax Credit forms to taxpayers who make eligible investments. The form authorizes the amount that a taxpayer can deduct from provincial income taxes.

.09 The Department should have rules and procedures to control the access to these forms as they are negotiable. We found that control over access to unused forms was not adequate and any unauthorized use of these forms would not be detected on a timely basis.

.10 The Department compares issued forms to those claimed by taxpayers on their income tax returns. However, this procedure is not timely because it takes about two years to get a list of tax credits claimed by taxpayers from Revenue Canada.

.11 The Department keeps the unused forms in a locked cabinet. However, the forms are not under joint custody. Also, there is no alternative procedure such as a check of the numeric continuity of unused forms to detect lost or stolen forms on a timely basis.

.12 In our opinion, controls over Venture Capital Tax Credits are lacking because of inadequate controls over unused forms.

Loss of Public Money

.13 In our opinion, due to an error in applying the rules of The Venture Capital Tax Credit Act, the Department did not recover a tax credit resulting in a loss to the Crown of $101,576.

.14 An individual received venture capital tax credits by investing in equity shares of an eligible venture capital corporation (corporation). In 1989, this individual withdrew $710,000 of the corporation's stated capital. The corporation's stated capital included the money paid for the equity shares. It also included appraisal increase credits resulting from certain assets being revalued to appraised value.

.15 Subsection 20(1) of The Venture Capital Tax Credit Act provides that:

> *"Where a venture capital corporation....purchases or otherwise acquires any of its equity shares; the venture capital corporation shall immediately pay to the Crown an amount of money calculated according to the rules set out in this section."*

.16 Subsection 20(7) of the Act sets out rules to be applied when a venture capital corporation reduces its stated capital. Subsection 20(7) states:

> *"A venture capital corporation that reduces its stated capital pursuant to The Business Corporations Act is, for the purposes of this section, deemed to have acquired equity shares for a total consideration equal to the amount by which its equity capital exceeds the greater of:*
>
> *(a) the stated capital of the corporation after the reduction; and*
>
> *(b) the value of all of the shareholders' equity calculated in the prescribed manner."*

.17 When the Department applied Subsection 20(7) of the Act to the $710,000 withdrawal, it did not include the appraisal increase credits in the calculation of the corporation's equity capital. As a result, the Department calculated the deemed total consideration for the equity shares acquired as zero and, therefore, it did not recover any tax credits.

.18 We questioned the Department's calculation. This caused us to seek an opinion from our lawyer because the laws governing venture capital tax credits are complex.

.19 According to our lawyer, in this case, the total consideration referred to in Subsection 20(7) of the Act is the difference between the equity capital after the appraisal (i.e. the original cash investment plus the appraisal increase credits) less the value of all of shareholders' equity after the withdrawal [i.e. the equity capital (including the appraisal increase credits), after the reduction in capital, plus retained earnings].

.20 Had the Department included the appraisal increase credits in the shareholders' equity capital before withdrawal, the calculated deemed total consideration would be $338,585. This would result in a recovery of $101,576 (30% of $338,585) of venture capital tax credits.

.21 Management has a legal opinion that supports their view that there was no need to recover venture capital tax credits.

.22 Management told us that in the future they will not allow the use of appraisal increase credits to avoid recovery of venture capital tax credits.

NORTHERN SASKATCHEWAN ECONOMIC DEVELOPMENT REVOLVING FUND

.23 The Department manages the Northern Saskatchewan Economic Development Revolving Fund. It uses the Fund to finance and account for loans made to northern residents.

Loss of Public Money

.24 The Department told us potential losses to the Fund had occurred due to the unauthorized actions of a person in the Department's management.

.25 The person made unauthorized representations to the creditors of a loan recipient. The creditors were told that the Department would cover certain business debts incurred by the loan recipient. The Department paid the creditors $25,466 because of these unauthorized representations and added the amount to the loan recipient's loan balance. However, the Department has not obtained a promissory note for this additional loan.

.26 The person cancelled an assignment on the revenue of the same loan recipient. Therefore, the Department didn't receive loan repayments totalling $47,767.

.27 According to management the collectability of the above amounts totalling $73,233 is doubtful.

.28 In addition, this person released assets valued at $87,673 to a company for six months without a sale, lease, or rent agreement in place. The Department did not receive any revenue from the company for these assets during this period.

.29 The Department ended this person's employment. It told us the matter was given to the police for investigation.

CHAPTER 14

DEPARTMENT OF EDUCATION

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CHAPTER 14

DEPARTMENT OF EDUCATION

SASKATCHEWAN STUDENT AID FUND

.01 The Trustees of the Saskatchewan Student Aid Fund are responsible for the Saskatchewan Student Aid Fund. Employees of the Department manage the day to day affairs of the Fund.

Public Accountability

.02 Our 1989 annual report states as of March 9, 1990 we had not completed our audit of the Fund for the year ended March 31, 1989.

.03 Our audits for 1989 and 1990 are now complete. In our opinion, the accounts of the Fund were not properly kept to permit the timely preparation of financial statements for 1989.

.04 The delay in preparing the 1989 financial statements impaired the Department's public accountability.

Loan Verification Procedures

.05 The Department's rules and procedures were not adequate to prevent or detect unauthorized loans. The verification of the information contained in the loan and bursary application forms was insufficient.

.06 The Department has established rules and procedures for checking the information contained in students' application forms before loans are granted. These procedures include obtaining information from other sources and comparing the information to the application forms. The Department produces reports of cases where information contained in application forms differs from information gathered from other sources.

.07 We found that employees were only investigating approximately one in every twelve cases where differences were reported.

.08 The Department investigated 174 cases. The Department also investigated 135 cases arising from public referrals. These investigations found unauthorized loans of $16,291 and $80,887 respectively. The Department did not statistically select the loans to investigate. As a result, it was not possible to estimate the total amount of unauthorized student loans.

.09 The Department has procedures to ensure that grants are not awarded on these unauthorized loans. The procedures also require recovery of the unauthorized loan from any future loans to the student.

.10 In our opinion, the Departments loan verification procedures could be improved. We also reported this matter in our 1988 and 1989 annual reports.

Segregation of Duties

.11 The Department did not adequately segregate the duties of employees.

.12 Segregation of duties is inadequate when one person can conceal an error or fraud. With computer systems, restricting the ability of employees to access the computer and its programs and files will result in an adequate segregation of duties. One way of restricting access is through passwords.

.13 The Department has not adequately restricted access to the Department's computer files and programs. There are no passwords required for employees to access the Department's microcomputers.

.14 The microcomputers are used in the loan repayment system to calculate student interest write down grants and minimum loan repayment amounts.

.15 In our opinion, this lack of segregation of duties over student loans allows unauthorized changes to the student loan records without timely detection.

.16 We also reported this matter in our 1988 and 1989 annual reports.

Controls Over the Accuracy of Student Loan Records

.17 The Department keeps Criteria Master and Student Master computer files. It uses these files to control the accuracy of loans to students.

.18 The Department's procedures require changes to these files to be authorized. They also require employees to check all changes recorded in the files for accuracy.

However, there is no report showing all the changes made to these files to evidence this checking was in fact done.

.19 Because there is no report showing all changes made to these master files, unauthorized changes could be made and remain undetected.

.20 We also reported this matter in our 1988 and 1989 annual reports.

NORTHLANDS CAREER COLLEGE

.21 Our 1989 annual report states as of March 9, 1990 we had not completed our audit of the College for the year ended June 30, 1988.

Reliable Accounting Records Required

.22 Our audits of the College are now complete for the College's 1988 and 1989 fiscal years. Our audit found the rules and procedures were not adequate to safeguard and control public money.

.23 The Board needs timely and accurate financial statements to hold management accountable. Management should have rules and procedures that ensure the timely and accurate preparation of financial statements. We found these rules and procedures were lacking.

.24 The College, agrees with funding agencies, to offer specific courses on a cost recovery basis. It keeps an account to record all the money due for the expenses incurred in offering these courses. However, the College does not systematically compare the money it receives from funding agencies to the amount recorded as owing from these agencies. This results in unexplained differences remaining in the account.

.25 At the year end, this account required significant adjustments to make it accurate. Because this account was inaccurate, any financial statements prepared from the uncorrected records were not reliable.

.26 In our opinion, the lack of control procedures to ensure accurate financial statements could result in incorrect decisions by the Board. It also allows overdue accounts receivable to escape the attention of senior management and the Board.

Payments Require Authority

.27 The Regional Colleges Act requires the Minister to approve purchases of real property.

.28 The College did not obtain the Minister's approval for the purchase of real property in the amount of $35,103.

PRAIRIE WEST REGIONAL COLLEGE

.29 Our audit of the College found its rules and procedures were not adequate to safeguard and control public money.

.30 The College did not adequately segregate the duties of employees. Segregation of duties is inadequate when one person can conceal an error or fraud.

.31 The College lacks accounting personnel. As a result, often one employee must do all the procedures related to revenue, receipts and record keeping.

.32 In our opinion, this lack of segregation of duties allows revenue to be misapplied without timely detection.

SASKATCHEWAN INDIAN REGIONAL COLLEGE

.33 The College is subject to the Regional Colleges Act. We found instances where the College did not comply with the law governing its financial reporting, safeguarding of assets, spending, and investing activities.

.34 The Act requires the members of the Board to be appointed by the Lieutenant Governor in Council. Three persons regularly taking part in Board meetings were not appointed by the Lieutenant Governor in Council.

.35 The Act requires the Minister of Education to approve the purchase of term deposits. Term deposits were not approved by the Minister.

.36 The Act requires the Minister of Education to approve the budget for the College before the Board adopts it. The Minister did not approve the budget before adoption by the Board.

.37 The Act requires the Treasurer and one other signing officer to sign all cheques. The Treasurer and one other signing officer did not sign all cheques. We were told that after the year end management took action to correct this matter.

.38 We also reported these matters in our 1989 annual report.

CHAPTER 15

DEPARTMENT OF ENERGY AND MINES

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CHAPTER 15

DEPARTMENT OF ENERGY AND MINES

System Development Controls Over Petroleum and Natural Gas Tax and Royalty Revenue

.01 The Department was developing a new computer system during the year. It will use the new system to control petroleum and natural gas tax and royalty revenue.

.02 It is important to have effective controls over systems development. This is necessary to ensure the new system will work, meet user needs and be completed on time and within budget. Users also need to have confidence they can rely on the accuracy of the system.

.03 Petroleum and natural gas producers must send the Department monthly production reports. Information from the reports is used to control tax and royalty revenue.

.04 The Department told producers to stop sending the old monthly reports and to start sending the new monthly reports effective with the January, 1990 production month. When this decision was taken, the new system was not operational and the old system could not use the new monthly reports.

.05 The decision to stop using the old system before the new system was ready might cause the following problems. The Department may not be able to verify producers' taxes and royalties in order to bill or refund differences on a timely basis. Also, the Department's controls may breakdown if there is a large backlog of work.

.06 In addition, the department's credibility with the industry may be jeopardized if there are lengthy billing delays.

.07 When we completed the audit in October 1990, the Department's new system was still not fully working.

Payment Requires Authority

.08 The Department paid $327,405 to NewGrade Energy Inc. (NewGrade). This payment was described in the accounting records of the Department as "NewGrade Royalty Rebate". The authority relied upon by the Department to make this payment was Order in Council #7/89. The stated authority to issue this Order is Section

60 of the Financial Administration Act.

.09 Section 60 of the Act allows the Lieutenant Governor in Council to remit (forgive) or exempt any person from liability to pay any tax, royalty, rental or fee to the Crown.

.10 Order in Council #7/89 authorized the remission of natural gas royalties paid by producers under Crown leases pursuant to the Petroleum and Natural Gas Regulations, 1969 (the Regulations). The remission was for natural gas supplied to NewGrade and used directly for NewGrade's benefit in the heavy oil upgrader at Regina, subject to the following conditions.

.11 Producers must pay the Department the full amount of the royalties due under the regulations. They also must assign to NewGrade their right to the remissions under this Order. The Department must pay the amount of the remissions to NewGrade for fifteen years or a longer period if NewGrade's debts, guaranteed by the Crown in December 1986, remain unpaid.

.12 In our opinion, the producers' liability to pay royalties was not forgiven because they had to pay the full amount of royalties due under the regulations. Therefore, the effect of Order in Council #7/89 was not a remission to producers but a grant to NewGrade.

.13 In our opinion, Section 60 of the Financial Administration Act gives the Lieutenant Governor in Council the power to remit royalties but not the power to make grants. Accordingly, the payment of $327,405 to NewGrade does not have legislative authority.

.14 We have discussed this matter with the Department. They are of the opinion that the payment was within the authority of Section 60 of the Financial Administration Act.

CHAPTER 16

DEPARTMENT OF ENVIRONMENT AND PUBLIC SAFETY

The Fire Prevention Act

.01 The Fire Prevention Act, 1980 states:

> *"22(1) As a contribution to the cost of the fire prevention services provided for in this Act, every company . . . shall pay to the Minister of Revenue and Financial Services a fee . . ."*
>
> *"(4) Any moneys paid pursuant to subsection (1) are to be deposited in the consolidated fund and dedicated to paying the expenses incidental to the administration of this Act and the Regulations."*

.02 The Department pays the cost of administering the Act out of a consolidated fund appropriation. It also deposits money received under this Act to the consolidated fund. However, when the money received is in excess of the cost of administration, the excess is not set aside within the consolidated fund.

.03 During the year, revenue collected under Section 22 of the Act was approximately $2 million and the cost to administer the Act was approximately $1 million.

.04 Accordingly, the excess of receipts were used for purposes other than those set out in the Act.

.05 Our 1988 and 1989 annual reports also reported this matter.

.06 The Department has advised us that a proposed change in the law to correct this problem has received Cabinet approval. The Department expects the change will be presented at a forthcoming session of the Legislature.

CHAPTER 17

DEPARTMENT OF FINANCE

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CHAPTER 17

DEPARTMENT OF FINANCE

Payment Requires Authority

.01 Section 5 of The Purchasing Act requires the Department to buy its supplies through the Director of Purchasing. The Act defines supplies as "all goods, wares, and merchandise and the services incidental thereto that are required by a public agency for the transaction of its business".

.02 The Department paid a supplier for printing the 1989-90 Budget Address, Estimates and related materials. The printing of this material is "supplies" as defined within the Act.

.03 In our opinion, the Department required the approval of the Director of Purchasing to buy these supplies. The payment was made without this approval and therefore was without adequate authority. We reported this matter last year for a payment made on this purchase in 1988-89. The Department made the final payment for this purchase in 1989-90.

SPENDING CONTROLS OVER THE EXECUTIVE GOVERNMENT

.04 Our system of government works on the principle that the Executive is not allowed to spend public money without the prior approval of the Assembly.

Special Warrants

.05 The Assembly, however, gave the Executive the authority to spend public money, by special warrant, without prior approval. This action is only permitted by the Assembly when an expenditure is urgently and immediately required for the public good.

.06 In 1989/90, the Executive authorized the spending of approximately $437 million by special warrant.

.07 The Assembly alone must judge whether conditions existed which permitted the Executive to spend this public money without its prior approval.

.08 When the Executive authorizes the spending of public money by special warrant, it is required to include that amount in the next Appropriation Act. The law also requires the Provincial Auditor to report where a special warrant authorized the payment of public money.

.09 We report that all payments made by the authority of special warrants were included in the next Appropriation Act.

Commitment Controls

.10 The Minister of Agriculture and Food executed an Agreement with the Federal Government to provide for a drought payment to Saskatchewan farmers for the 1988 crop year. Under the terms of the Agreement, Saskatchewan is responsible for 25% of the cost of the drought payment, or, approximately $113,000,000.

.11 The Federal Government paid the total drought payment before the end of the 1989-90 fiscal year. Saskatchewan agreed to repay its share to the Federal Government during the fiscal years 1991-92 to 1995-96. The Legislative Assembly will not have the opportunity to approve this expenditure until the 1991-92 Estimates are presented.

.12 Section 31 of The Financial Administration Act states:

> *"(1) In a fiscal year, no department, board, commission or other agent of the Government of Saskatchewan shall incur any liability in that fiscal year greater than the unencumbered balance in its appropriation for that year.*
>
> *(2) Subject to subsection (3), in a fiscal year, a department, board, commission or other agent of the Government of Saskatchewan may incur a liability that extends into fiscal years subsequent to that fiscal year.*
>
> *(3) Where a contract, including a contract that incurs a liability for a subsequent fiscal year, involves the payment of public money by the Crown, that contract is deemed to include a provision that the payment of public money is subject to an appropriation being made for the goods or services provided under the contract in the fiscal year in which the liability to pay arises."*

.13 Section 31 gives the Legislative Assembly certain safeguards over spending by the Executive government. The Executive cannot spend more money in a fiscal year than the Assembly has provided. Also, the Executive cannot commit a future Assembly to expenditures with long-term contracts.

.14 The Assembly must appropriate the money in future years so that Saskatchewan can pay the Federal Government for its share of the program. If the money is not paid by Saskatchewan, the Federal Government could delay payments due to Saskatchewan. The Assembly will have the opportunity to consider this expenditure when the Estimates for 1991-92 are presented to the Legislative Assembly.

.15 In our opinion, the spending controls established by the Legislative Assembly in The Financial Administration Act were rendered ineffective by this Agreement. We hold this view because the Province is committed to future expenditures and the Federal Government could, in effect, force collection by delaying payments due to Saskatchewan.

PUBLIC ACCOUNTS

.16 Our auditor's report on the 1990 Consolidated Fund financial statements had a reservation of opinion.

Reservation of Opinion

.17 Our auditor's report reads as follows:

> *"I have examined the statement of financial position of the Consolidated Fund as at March 31, 1990 and the statements of net debt, revenue and expenditure, loan, investment and deposit activity and financing and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.*
>
> *Loans to crown entities include disbursements to the Saskatchewan Property Management Corporation of $554,705,000 (1989 -*

> *$385,136,000). It is inappropriate to record these disbursements as assets of the Consolidated Fund since their repayment depends upon future appropriations from the Consolidated Fund. Accordingly, these disbursements should have been recorded as expenditures. If these disbursements had been recognized as expenditures, loans to crown entities would have been reduced by $554,705,000 (1989 - $385,136,000), net debt would have been increased by $554,705,000 (1989 - $385,136,000) and excess of expenditure over revenue would have been increased by $169,569,000 (1989 - $44,300,000).*
>
> *In my opinion, except for the failure to record disbursements as expenditures as described in the preceding paragraph, these financial statements present fairly the financial position of the Consolidated Fund as at March 31, 1990, and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements applied on a basis consistent with that of the preceding year."*

.18 Our report advises that Saskatchewan Property Management Corporation (SPMC) must first receive money from the Consolidated Fund to repay the loan made by that fund. Therefore, this loan is not a financial asset.

.19 The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants (PSAAC) provides guidance on loans that are recoverable only from future appropriations. PSAAC states that these transactions should be included as an expenditure of the period.

.20 Our auditor's report on the 1990 financial statements that combine the operations of the Consolidated Fund and the Saskatchewan Heritage Fund has a similar reservation of opinion.

.21 Our auditor's report also states that the Combined Financial Statements are not summary financial statements as contemplated by PSAAC.

Supplementary Information

.22 The Standing Committee on Public Accounts in its April, 1975 report recommends the levels of detail to be shown in the Public Accounts for wages and salaries, payments to suppliers and employee travel. The recommendation for aggregate information states:

> *"Your Committee considered the question of the amount of detail now appearing in the Public Accounts text. Your Committee recommends that the levels for detail to be shown in the Public Accounts be as follows:*
>
> *$20,000 per employee for wages and salaries $10,000 for payments to suppliers and $ 2,000 per person for travel and that where the aggregate of any person exceeds the limits throughout all departments, this aggregate amount is to be also shown." (emphasis added)*

.23 In response to this request, the Public Accounts from 1976 through 1984 included a supplementary volume presenting an analysis by payee of payments on a government wide basis. This volume has not been tabled since 1984.

.24 The recommendation of the Standing Committee has not been rescinded.

.25 The Executive government announced it will ask the Public Accounts Committee in conjunction with the Provincial Auditor to determine the kind of information and level of detail needed in the public accounts.

Timely Information is Required for Approving Estimates

.26 The Assembly usually considers the Executive government's spending plan for the upcoming fiscal year in the spring session of the Legislature.

.27 Because the fiscal year ends on March 31, the Assembly does not have detailed information on that year's spending to consider before approving the spending for the upcoming fiscal year. Typically, the Assembly is provided with audited information from two years prior.

.28 In the 1990 spring session of the Legislature, the Assembly considered the government's spending plan for the fiscal year ending March 31, 1991. The Public Accounts for the year ended March 31, 1989 were tabled during that session.

.29 In our opinion, the Assembly should be provided the latest available forecast of spending expected for the current year before it is asked to approve next year's spending (the Estimates).

.30 The Executive government announced it will show a current forecast of revenues and expenditures for 1990-91 in the 1991-92 Estimates.

COMPTROLLER

.31 The audit of the management control systems used by the Comptroller to discharge his responsibilities disclosed inadequate controls over revenue.

Controls Over Revenue

.32 An important element in any system of control is careful supervision by management. In large organizations, no one manager can have a direct personal knowledge of every facet of the organization's activities. Therefore, an important aspect of management supervision is the monitoring of the continuing effectiveness of all controls in the organization.

.33 Section 25 of The Revenue and Financial Services Act describes the duties of the Comptroller and provides in part as follows:

> "(i) *the comptroller shall:*
>
> *a) supervise the receipt, recording and proper disposition of public money;*"

.34 The Comptroller's interpretation of this responsibility is as follows:

> " - *establish standards,*
>
> \- *monitor and evaluate, where necessary, provide direction or suggestions for improvement in the process,*

> - *may provide assistance to affect changes as identified, for all receipts of funds that are under the direct supervision of Treasury Board except that discretion can be applied where a proper management structure exists within an entity that will ensure the process is adequate."*

.35 The Comptroller has not documented procedures established to monitor and evaluate all receipts under the direct supervision of Treasury Board. As a result, we were unable to determine whether the Comptroller has established systems and procedures sufficient to supervise the receipt, recording and proper disposition of public money.

.36 In our opinion, this lack of controls over revenue allows the risk of errors occurring without timely detection.

.37 This matter was reported in our 1986, 1987 and 1989 annual reports.

PUBLIC EMPLOYEES BENEFITS AGENCY - PUBLIC EMPLOYEES DENTAL FUND

.38 Through the Public Employees Benefits Agency (PEBA), the Department manages the Public Employees Dental Fund. The Fund receives contributions from employers and pays employees' claims.

.39 Our 1989 annual report states as of March 9, 1990, the audit was not completed for the year ended December 31, 1988.

Public Accountability

.40 The audits for 1988 and 1989 are now complete. In our opinion, the accounts of the Fund were not faithfully and properly kept to permit the preparation of financial statements.

.41 PEBA's procedures manual includes a section describing monthly posting procedures and year-end cut-off policies and procedures for the Fund. One purpose of these procedures is to ensure staff prepare monthly and annual financial statements for the Fund on a timely basis. We observed the required procedures for the year ended

December 31, 1988 were not performed until May, 1989 and were not completed until December, 1989. The required procedures for the December 31, 1989 financial statements were not performed until July, 1990.

.42 The delay in preparing financial statements for the Fund impairs the Department's public accountability.

Controls Over the Bank Account

.43 PEBA uses an external administrator to pay claims on the Fund. The external administrator maintains a bank account for the purpose of paying claims. On a regular basis, the external administrator transfers the required funds to its bank account.

.44 PEBA's rules and procedures require staff to check the bank transfers and perform bank reconciliations on a timely basis.

.45 We observed that the bank transfers were not checked and the bank reconciliations were not completed on a timely basis to ensure the proper recording of all transfers.

.46 This could result in unauthorized or incorrect transactions not being detected on a timely basis.

.47 This matter was reported in our 1989 annual report.

Controls Over Dental Claims

.48 Staff approve dental claim forms for payment after checking to ensure all required information and signatures are present.

.49 These forms are then sent to the external administrator for payment. The external administrator sends a cheque directly to the claimant and returns to PEBA the processed claim forms together with a report which details the claims paid.

.50 PEBA's rules and procedures require staff to check that payments are properly supported and are reimbursed at the approved rates.

.51 We observed that staff did not check to ensure that payments made by the external administrator were supported by properly approved claim forms.

.52 In addition, staff did not check to ensure the claims were correctly reimbursed using the approved rate schedule and that the maximum allowable claim reimbursement was not exceeded.

.53 Further, PEBA has not received an audit report giving it assurance the administrator has adequate computer controls to ensure all Dental Plan data is complete, accurate, authorized and secure.

.54 In our opinion, because of the inadequate controls over dental claims, PEBA lacks assurance that payments for dental claims are complete, accurate and authorized.

.55 This matter was reported in our 1989 annual report.

Controls Over Receipts

.56 PEBA's rules and procedures to control receipts were lacking.

.57 One employee receives money, records receipts in a contribution ledger and prepares the deposit. This employee also reviews the contribution ledger to ensure that each employer sends contributions for each month. There is, however, no timely independent check done to ensure that all receipts recorded in the contribution ledger are deposited.

.58 This could result in undeposited receipts. Any errors would not be found on a timely basis due to the delays in completing the accounting records.

.59 This matter was reported in our 1989 annual report.

Controls Over Employers' Contributions

.60 Employers fund the Public Employees Dental Fund through premiums based on gross payroll. PEBA's procedures were not adequate to know whether employers contribute the proper premium.

.61 Employers send a monthly remittance form to PEBA. The form shows their gross payroll and their calculation of required premiums.

.62 We found PEBA did not have a system to ensure that the gross payroll amounts recorded on the form were accurate.

.63 This resulted in undetected errors. Some employers forgot to include the salaries of labour service employees.

PUBLIC EMPLOYEES BENEFITS AGENCY - PUBLIC EMPLOYEES REVOLVING FUND

.64 Through PEBA, the Department manages the Public Employees Benefits Agency Revolving Fund. It uses the Fund to finance and account for the costs of managing employee benefit plans. The costs of these services are allocated to and recovered from employee benefit plans.

.65 Our 1989 annual report states as of March 9, 1990, we had not completed the audit of the Fund for the year ended March 31, 1989.

Budgets and Timely Financial Statements

.66 We have now completed the audit for 1989 and 1990. In our opinion, the accounts of the Fund were not faithfully and properly kept to permit the preparation of timely and accurate financial statements. The Department's failure to prepare timely financial statements results in reduced public accountability for its administration of the Fund.

.67 We observed management had not complied with certain sections of the Treasury Board Accounting and Reporting Policy Manual.

.68 The Manual requires management to submit quarterly financial statements for the Fund to the Treasury Board. For the years ended March 31, 1989 and 1990 management was unable to submit these financial statements as the records were not current.

.69 The Manual also requires management to prepare and submit an annual budget for the Fund to Treasury Board. The rates to be charged for services rendered to the employee benefit plans must be included in the budget submission for approval by the Board. Management did not submit a budget to Treasury Board for the year ended March 31, 1989. Therefore there was no evidence that Treasury Board approved the rates charged for services. Also, management did not obtain the approval of the Minister of Finance for the rates charged as required by subsection 32.1(7) of The Revenue and Financial Services Act.

Controls Over Revenue

.70 We also observed that control procedures over revenue were not adequate.

.71 PEBA did not prepare and review the quarterly cost allocation ledgers until after March 31, 1989. These ledgers are used to ensure the accuracy of costs allocated to the various plans. This could result in management not having timely information upon which to make decisions. It also could result in accounting and billing errors occurring without timely detection. This deficiency contributed to the delay in preparing the required financial statements.

.72 The Provincial Comptroller makes all payments for expenses incurred for the operation of the Fund. These payments are charged to the Fund's appropriation. The Comptroller also receives all revenue due to the Fund. These receipts are credited to the Fund's appropriation. The Comptroller records these receipts based on a form (cash receipts input) prepared by the management responsible for the operation of the Fund. The Comptroller provides reports (RES) detailing transactions charged and credited to the Fund's appropriation.

.73 PEBA did not compare the "cash receipts input" form to RES until after March 31, 1989. This comparison is necessary to ensure all cash receipts are deposited and recorded. This lack of control procedures could result in a failure to deposit and record cash receipts without timely detection.

PUBLIC EMPLOYEES BENEFITS AGENCY - PUBLIC SERVICE SUPERANNUATION BOARD (March 31, 1989)

.74 PEBA manages the Public Service Superannuation Plan, Saskatchewan Transportation Company Employees Superannuation Fund and Anti-Tuberculosis League Employees Superannuation Fund for the Board.

Controls Over Revenue

.75 We observed that control procedures over revenue were not adequate.

.76 PEBA keeps a listing of participating agencies who are required to remit contributions monthly. The listing is used to ensure the required contributions are received monthly from each participating agency. That listing was not being updated properly on a regular basis. Also, the Department did not check to ensure that the contribution rates were correct.

.77 These control deficiencies could result in errors. For example, Westbridge Computer Corporation didn't remit $108,934 of its current year matching contributions and $7,459 for its prior year contributions. After the year end, PEBA arranged to collect the unpaid contributions.

.78 We also observed that a number of pensioners contributed at an incorrect rate over a number of years. The total amount of contributions not collected is $17,500. PEBA's lawyer has advised that collection of these contributions should not be pursued because of the number of legal defences the pensioners could use against collection. Accordingly, the Board decided not to pursue these underpayments.

Compliance With Authorities

.79 In addition, we observed that PEBA did not comply with the following legislative authorities.

.80 Sections 11 and 20 of The Superannuation Acts Uniform Regulations require the Department to consider the retirement or liability pension under the Canada Pension Plan and the Old Age Security Act (Canada) when determining the amount of reduced allowance payable to a pensioner.

.81 PEBA determined that three pensioners were overpaid pension benefits in the amount of $5,677 in the current year and $12,563 in prior years. The overpayment was caused by the Canada Pension Plan and Old Age Security benefits not being integrated with the pension benefits under the Public Service Superannuation Plan for these three pensioners. PEBA is currently collecting these overpaid amounts.

PUBLIC EMPLOYEES (Government Contributory) SUPERANNUATION PLAN SUPERVISORY BOARD 1988 & 1989

.82 The Supervisory Board is responsible for the Public Employees (Government Contributory) Superannuation Fund and the Public Employees (Government Contributory) Annuity Fund. PEBA manages the day to day affairs of the Funds.

Public Accountability

.83 Our 1989 annual report states as of March 9, 1990 we had not completed our audits of the Funds for the years ended March 31, 1988 and 1989.

.84 Our audits for 1988 and 1989 are now complete. In our opinion, the accounts of the Funds were not faithfully and properly kept to permit the timely preparation of financial statements. As at the date of this report, the 1990 audit is not complete.

.85 The delay in preparing financial statements impairs the Board's public accountability.

Supervisory Controls

.86 The Board and senior management of PEBA should carefully review and supervise the work of employees to detect breakdowns in control systems. We found this review and supervision lacking.

.87 In 1987-88 and 1988-89 employees did not process general ledger entries in a timely manner. They also did not reconcile the general ledger to the members' contribution subsidiary ledger on a timely basis. As a result, timely monthly financial statements could not be prepared and the Board and senior management were unable to review and approve monthly financial statements.

.88 This deficiency impairs the ability of the Board and senior management to correct any errors or problems that might be found from a review of the monthly reports. As a result, the stewardship responsibilities assigned by statute cannot be properly and faithfully discharged.

.89 This deficiency also contributed to the delay in the preparation of the annual financial statements.

Current Policy and Procedures Manuals

.90 PEBA should have current and complete policy and procedures manuals for the operation of these Funds. These manuals will help to ensure that all employees have a clear understanding of their duties. A further benefit of these manuals is that the continuity of the system is less likely to be impaired by personnel changes.

.91 There is no complete and current policy and procedures manual. A procedures manual prepared several years ago exists, however this manual is incomplete. It does not contain all important internal control objectives. It also does not reflect recent changes in staff responsibilities and changes in the activities of the Board.

.92 This deficiency allows errors to occur because employees may not be aware of their duties and responsibilities.

Journal Vouchers

.93 PEBA's procedures were not adequate to ensure that all entries in the records were authorized. We found senior officials were not authorizing journal vouchers.

.94 This deficiency could result in errors in the accounting records without timely detection.

Controls Over Investment Income

.95 We also found that PEBA's controls over investment income were lacking.

.96 During 1987-88 PEBA had no formal procedures in place to ensure it received all investment income earned. For short-term investments, bonds, debentures and Canadian equities, there was no evidence employees recalculated investment income. For mortgages, real estate and foreign equity investments, employees did not systematically check to ensure PEBA received all income earned.

.97 This deficiency could result in PEBA not receiving or recording as receivable earned investment income. In addition, the Board approves the interest allocation rate for members accounts based on the recorded investment earnings. Therefore, any errors due to this deficiency could result in an incorrect amount allocated to members' accounts.

.98 These deficiencies continued in 1988-89, except for investment income on bonds and debentures. PEBA changed its procedures in 1988-89 retroactive to April 1, 1988 to ensure it received investment income on bonds and debentures.

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DEPARTMENT OF HEALTH

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CHAPTER 18

DEPARTMENT OF HEALTH

BATTLEFORDS REGIONAL CARE CENTRE

.01 We observed the following deficiency in the rules and procedures to safeguard and control the Centre's assets.

Controls Over the Centre's Bank Account

.02 Management should segregate the duties of employees so that no one employee can misapply assets without timely detection.

.03 Management did not properly segregate the duties of employees. One employee prepared bank deposits and was also responsible to make sure the money deposited agreed to the record of cash received. This employee was responsible to keep the records, to balance the records to the bank statement and to prepare the monthly financial statements.

.04 This deficiency in control procedures allows the employee to misapply the assets of the Centre without detection.

LAKESIDE HOME

.05 We state in our 1989 annual report that at March 9, 1990, we had not completed the audit for the Home for the year ended March 31, 1989. The 1989 audit is now complete. At the date of this report the 1990 audit is not complete.

Public Accountability

.06 The Home was late in preparing its financial statements for the Legislative Assembly. This delay in preparing the financial statements reduces the Home's public accountability.

Controls Over Revenue

.07 We observed management's control systems were not adequate to control revenue for 1989 and 1990.

.08 The Housing and Special-Care Homes Care and Rate Regulations govern the rates the Home must charge its residents. The regulations have a rate for residents needing limited personal or nursing care and a rate for residents who need supervisory care.

.09 The Home did not have procedures to bill residents according to the regulations. This deficiency in procedures allows incorrect billings to residents.

.10 We observed incorrect billings to four residents totalling $57,342 in 1989 and to three residents totalling $25,404 in 1990. The Home did not collect this revenue.

Payments Require Vouchers

.11 In addition to the control deficiencies, we observed a number of payments in 1989 that were not properly supported by vouchers.

.12 Fifteen instances were noted where payments were made without support indicating that goods or services were received. These payments were for drug purchases for the residents and for clothing or other personal articles. The administration office did not receive any indication of whether goods were received. The total of all such payments was $11,550.

PALLISER REGIONAL CARE CENTRE

.13 We found the rules and procedures to safeguard and control the Centre's assets were lacking.

Controls Over Employee Pay

.14 The Centre requires its employees to complete and sign a time report. The Centre also requires its supervisors to approve the employees' hours worked by signing the time report. At the end of each week, the time reports are sent to the payroll clerk who uses them to prepare the employee's pay.

.15 Supervisors did not always approve employee time reports. This deficiency in control procedures allows employees to be paid for more hours than they worked.

Controls Over Furniture, Equipment and Fixtures

.16 The Centre needs to keep records of its assets. Periodically it should physically examine and count its assets. Physical counts are necessary to ensure the integrity of the records.

.17 The Centre keeps a detailed list of its furniture, equipment and fixtures (capital equipment) to help safeguard its investment.

.18 During the examination, we found the Centre did not verify the capital equipment list by physical inspection.

.19 The failure to count these assets could result in errors in the records. The records might show an investment in capital equipment that no longer exists or is no longer of service to the Centre.

.20 Management told us that after the audit was complete, they counted the capital equipment and compared it to the capital equipment listing.

PARKLAND REGIONAL CARE CENTRE

.21 We observed the following deficiency in management's control systems.

Controls Over Property, Plant and Equipment

.22 The Centre needs to keep records of its assets. Periodically it should physically examine and count them. Physical counts are necessary to ensure the integrity of the records.

.23 The Centre keeps a detailed listing of its furniture, equipment and fixtures (capital equipment). However, there has not been a physical count of the assets on the list.

.24 The failure to count these assets could result in errors in the records. The records might show an investment in capital equipment that no longer exists or is no longer of service to the Centre.

.25 In April, 1990 we were told the Centre has established a schedule that provides for a periodic physical count of all capital equipment.

SOURIS VALLEY REGIONAL CARE CENTRE

.26 Our audit disclosed the following management control deficiencies.

Procedures Required to Prepare Timely and Accurate Financial Statements

.27 Management needs accurate financial statements to control the operations of the Centre. Incorrect financial statements can result in incorrect decisions. Also, each year the Centre must prepare accurate financial statements for the Legislative Assembly.

.28 To aid in the preparation of accurate financial statements the Centre needs written policies and procedures for staff to follow. Staff need written policies and procedures and proper training to avoid errors caused by misunderstanding.

.29 The Centre did not have written policies and procedures for the accurate preparation of financial statements. We found significant errors affecting accounts payable and fixed assets. There were transactions that were not properly recorded in either the records or in the draft financial statements for the year ended March 31, 1990.

.30 We discussed the errors we found with management. Management chose to adjust the accounting records and the draft financial statements for the year ended March 31, 1990.

.31 As at the date of this report the 1990 financial statements are not complete.

Purchasing Procedures

.32 The Centre has written policies and procedures for buying materials. They require the Centre's Materials Management Department to authorize all purchases.

.33 We observed that the necessary purchase orders for dairy products totalling $102,000 were not issued. Accordingly, the Centre did not comply with the provisions of its own written policies and procedures.

CHAPTER 19

DEPARTMENT OF HIGHWAYS AND TRANSPORTATION

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CHAPTER 19

DEPARTMENT OF HIGHWAYS AND TRANSPORTATION

.01 We observed management's control systems were not adequate as significant errors or fraud could happen without timely detection.

Controls Over Local Purchase Orders

.02 Management needs rules and procedures to ensure employees carry out their duties within the authority given to them.

.03 We found the rules and procedures used to acquire goods and services using local purchase orders (LPO) were not adequate to ensure employees operated within their authority.

.04 The guidelines of the Purchasing Agency until November 2, 1989 stated that in normal conditions LPO's for more than $100 had to be approved by an official named by Treasury Board. After November, the Department had the authority to name the officials who could approve LPO's over $100.

.05 We observed that LPO's over $100 were not being approved by officials named by Treasury Board before November 1989. We also observed that the Department did not formally name the officials who could authorize LPO's over $100 until April 1, 1990.

.06 As a result, employees were approving these LPO purchases without authority. In our opinion, these purchases were made without proper approval.

Controls Over Journal Vouchers

.07 The Department's rules and procedures require journal vouchers to be authorized. We found that employees were not checking Highways Revolving Fund journal vouchers for proper authorization before recording them.

.08 This lack of control procedures allows the records to contain unauthorized entries.

.09 We found that no journal vouchers were authorized for the entire year.

Quarterly Financial Statements

.10 The quarterly financial statements for the Highways Revolving Fund submitted to Treasury Board were not accurate. The accounting system cannot produce accurate quarterly financial statements on an appropriate basis of accounting. The main reason is that the general ledger accounts cannot be reconciled to the subsidiary records until adjustments are made after the year end.

.11 Therefore, the Department did not comply with the requirement to submit quarterly financial statements to Treasury Board.

.12 This matter was also reported in our 1987 and 1989 annual reports.

Approval Required for Capital Acquisition Plan

.13 Treasury Board requires the Department to submit a five year capital acquisition plan for the Revolving Fund as part of its budget submission to Treasury Board.

.14 The Department did not include this capital acquisition plan for the Revolving Fund as part of its budget submission to Treasury Board.

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DEPARTMENT OF JUSTICE

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CHAPTER 20

DEPARTMENT OF JUSTICE

Segregation of Duties

.01 The Department keeps the records for the Personal Property Registry system and the Justice Automated Information Network system using computers.

.02 The Department did not adequately segregate the duties of employees using its computer systems. Segregation of duties is inadequate when one person can conceal errors or fraud. With computer systems, restricting the ability of persons to access programs and data results in adequate segregation of duties.

.03 We found the Department has systems and information available to properly restrict access to its computer systems. However, we found the Department did not fully use the information and systems.

.04 This lack of segregation of duties allows unauthorized changes to program and data files without timely detection.

Systems Development Controls

.05 The Department should have documentation standards for systems development and maintenance. Documentation helps ensure necessary controls are in place. It also helps employees understand their responsibilities and safeguards systems design. Documentation is important in computer based systems because of the cost and complexity of the systems.

.06 The Department has not established documentation standards for systems development and maintenance.

.07 The lack of standards allows the development of new systems or changes to existing systems without proper documentation. This could cause future problems determining how those systems operate when they require change resulting in increased costs for such changes.

Contingency Plan

.08 The Department should have a written and tested contingency plan that ensures it can continue to operate in the event of a major loss or destruction of records. It must be able to recover and reconstruct critical records.

.09 The Department does not have a written and tested plan to ensure its continued operation in the event of a major loss or destruction of records.

.10 Accordingly, the Department may not be able to continue to operate in a timely and effective manner in the event of a major loss or destruction of records. The Department told us they are developing a plan.

Billings for Police Services

.11 The Department has agreements with municipalities for police (RCMP) services. The agreements require municipalities to pay the Department the full cost of those RCMP services.

.12 The Department sends the municipality an estimate of the costs each year. When the actual costs are known, the Department issues a final bill. The Department did not issue any final bills for the 1988-89 year although actual costs exceeded the estimates.

.13 The failure to bill municipalities for additional costs resulted in a loss of revenue of $70,000 for the 1989-90 year.

.14 The Department has since billed the municipalities for these costs.

Overdue Accounts at a Land Titles Office

.15 Frequent users of land titles services may establish deposit accounts. Fees for services charged against the deposit account sometimes exceed monies on deposit.

.16 Subsection 3(2) of the Land Titles Fees Regulations states:

> *"each registrar shall collect all fees assessed against a deposit account which has an insufficient balance in the month following the month in which the service was rendered, and shall submit those fees to the Minister of Finance after the month in which they are collected."*

.17 As at February 28, 1990, the Saskatoon Land Titles Office had 80 accounts in arrears totalling $79,000.

.18 Treasury Board Accounting and Reporting Policy Manual requires uncollectible accounts to be identified and submitted for write-off. The Saskatoon office has not determined its uncollectible accounts.

.19 In our opinion, the Department did not comply with the above mentioned Regulations and Manual.

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND

.20 The Department manages the Correctional Facilities Industries Revolving Fund. It uses the Fund to finance and account for industrial activities at the correctional centres.

.21 The Department's rules and procedures to safeguard and control public money with respect to this Fund were lacking.

Segregation of Duties

.22 The Department did not adequately segregate the duties of employees at the Regina facility. Segregation of duties is inadequate when one person can conceal an error or fraud.

.23 One employee prepared sales invoices, opened the mail, handled cash, prepared deposits and kept all the accounting records.

.24 As a result, cash could be misapplied without timely detection.

Financial Statements Need to be Timely and Accurate

.25 Management needs timely and accurate financial statements to control the operations of the Fund. We found there is no system to ensure the timely preparation of financial statements.

.26 The Financial Administration Manual (FAM) requires the Department to submit quarterly financial statements for the Fund to Treasury Board within thirty days after the close of the quarter.

.27 The Department did not produce quarterly financial statements.

.28 The lack of timely financial information may delay corrective action for unprofitable operations. Also, errors in the records could occur without timely detection.

.29 We also found there was no system to produce timely and accurate annual financial statements.

.30 The annual financial statements presented to us for audit for the year ended March 31, 1990 were inaccurate. The Department prepared them using incorrect accounting principles and they contained other significant errors.

.31 After discussion, management corrected the financial statements. However, because of the number of errors and management's delay in providing information about the accounts, the annual financial statements were not completed on a timely basis.

Controls Over Inventory

.32 The Department's rules and procedures were not sufficient to safeguard and control inventory.

.33 To ensure accountability for and control over inventory, the Department should keep inventory records or use other procedures. The FAM governs the records the Department should keep to assist in controlling inventories for the Fund.

.34 The Department conducts a year end physical count of inventory. However, it does not have inventory records or another means of determining the amount of inventory that should be on hand.

.35 These deficiencies in the control procedures allow the inventory to be misapplied without detection. Also, the Department has not complied with the FAM.

Procedures for Bank Deposits

.36 We also found the Department did not deposit money according to the rules set out in the FAM.

.37 The FAM states money must be deposited daily if the amount for deposit exceeds $500 or weekly if the amount does not exceed $500.

.38 The Department deposits money of the Fund twice weekly rather than daily when funds for deposit exceed $500.

PUBLIC TRUSTEE

.39 The Office of the Public Trustee for Saskatchewan manages the estates of mentally incompetent persons.

Control of Estate Assets

.40 The Public Trustee has established rules and procedures to protect the assets of estates. When the assets of an estate include land, employees are required to notify the Land Titles Office when they takeover administration of an estate.

.41 We observed the Public Trustee did not promptly notify the Land Titles Office in all cases. Delays occurred in 4 out of 26 estates taken over during the year. The delays in notification ranged from three to eight months. Delays in notifying the Land Titles Offices can result in losses to the Crown.

.42 In our opinion, the Public Trustee did not adequately protect the assets of these estates.

QUEEN'S PRINTER REVOLVING FUND

.43 The Department buys and sells published material. It uses the Queen's Printer Revolving Fund to finance and account for this activity.

Control of Inventory

.44 The Department uses an independent contractor to print publications. The contractor keeps an inventory of unsold publications on its premises and sells inventory for the Department.

.45 During the audit we observed there was no system to determine the quantities of inventory that should be on hand at the contractor's premises.

.46 This deficiency allows the possibility that the contractor may not put all publications paid for by the Department into inventory. Therefore the contractor could misapply the money from the sale of publications without timely detection.

.47 This deficiency also results in non-compliance with the FAM. FAM requires the Department to keep inventory records to help control inventories.

THE VICTIMS' FUND

.48 The Department manages the Victims' Fund created under The Victims of Crime Act. The Fund commenced operations August 1, 1989.

Organization Structure Required

.49 The Department should have a system that assigns authority and responsibility to operate and control the Fund. It also needs a system to ensure that employees discharge assigned duties within their authority.

.50 We found the Department did not establish an appropriate organization structure that assigned authority and responsibility for the operation and control of the Fund. Therefore, no individual or branch within the Department was responsible to ensure the proper administration of the Fund.

.51 As a result, errors went undetected because of a lack of supervisory and reporting controls. (See paragraphs .59 and .60).

Written Policies and Procedures Required

.52 The Department also did not have a system to produce financial information to allow management to control the operations of the Fund.

.53 Part of the accounting records of the Fund are monthly revenue reports received from the Department of Finance. The receipt of these reports was not timely and the reports did not contain enough detail to allow a proper analysis of the revenue. This was caused because employees were not told who should receive reports, what the reports should contain and what should be done with the reports.

.54 As a result, errors went undetected by management because of the lack of timely, accurate and appropriate reports. (See paragraphs .59 and .60). The Department needs written policies and procedures.

Monitoring of Revenue

.55 The Fund receives surcharges on fines. Provincial Court Offices collect the surcharges and the fines and send the head office of the Department a monthly report showing the revenues collected. The Department should have a system that monitors these reports to ensure they are complete and reasonable.

.56 We found the Department did not have a system to monitor the monthly reports from the Provincial Court offices.

.57 As a result, errors in the reports went undetected by management. (See paragraphs .59 and .60).

Money Should be Deposited to the Correct Fund

.58 Provincial Court offices receive money for different purposes. Money received from surcharges must be deposited to the Fund. There was no system to ensure that head office deposits surcharges to the correct Fund.

.59 We found that money belonging to the Fund had been deposited to the Consolidated Fund in error. We also found that monthly reports from a Provincial Court office did not properly allocate the money received between fines and surcharges.

Public Accountability

.60 The errors found in paragraphs .51, .54, .55 and .59 were discussed with management. The Department is unable to prepare financial statements until it can determine what money belongs to the Fund.

.61 In our opinion, the accounts were not faithfully and properly kept to permit the preparation of timely and accurate financial statements. As a result, our audit for the year ended March 31, 1990 is not complete.

.62 The delay in preparing financial statements for the Fund impairs the Department's public accountability.

.63 The Department has told us they are obtaining the information necessary to prepare the financial statements.

CHAPTER 21

DEPARTMENT OF PARKS AND RENEWABLE RESOURCES

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CHAPTER 21

DEPARTMENT OF PARKS AND RENEWABLE RESOURCES

Contingency Plan

.01 The Department uses computers to operate two in-house financial systems (labour service payroll and revenue) and several management information systems. These systems are critical to the Department's operations.

.02 The Department should be able to operate during abnormal circumstances. It needs a written contingency plan for employees to use if a major loss or destruction of records occurs. The Department should document the plan including the computerized procedures and the manual procedures. One part of this plan is the ability to recover or reconstruct critical records that are lost or destroyed. It should also test the plan to ensure it works.

.03 Our audit found there was no written and tested contingency plan in place for the employees to follow if a major loss or destruction of records occurs. If such an event occurs the Department may not be able to recover in a timely and efficient manner.

Interest on Past Due Leases

.04 We also found that the Department did not charge interest on past due Resource Land Leases.

.05 The Resource Lands Regulations, in effect to November 1989, stated in Section 3:

> *"Every lease of resource lands is subject... to the conditions that: 3(g) the lessee pay interest at the rate of 6% per annum on all sums of money owing under the terms of the lease that are not paid on or before the date specified in the lease."*

.06 The Resource Lands Regulations, 1989, in effect from November 1989, state in subsection 4(f):

> *"the lessee shall pay interest at the rate of 1% per month, that is 12% per year, on all moneys owing pursuant to the terms of the lease that are not paid within 30 days from the due date for payment of the moneys specified in the lease, and unpaid interest shall be compounded*

annually after the 30 days have expired."

.07 In our opinion, the Department did not comply with either the old or the new regulations.

COMMERCIAL REVOLVING FUND

.08 The Department manages the Commercial Revolving Fund. It uses the Fund to finance the operations of provincial parks.

Authorization Controls

.09 We found the Department's rules and procedures to ensure the proper authorization of transactions were lacking.

.10 In April and July 1989 the Department sold buildings at two provincial parks for approximately $150,000. These buildings were the property of Saskatchewan Property Management Corporation (SPMC). The sale proceeds were deposited to the Fund in error. The financial statements of the Fund for the year ended March 31, 1990, presented to us for audit, showed the sale proceeds as miscellaneous revenue.

.11 We also found that the Department continued to pay rent to SPMC on the buildings sold from the date of sale to March 31, 1990. Total rent paid after the date of sale was $32,600.

.12 We discussed these errors with management. They corrected the financial statements for the Fund and took initial steps to recover rental paid to SPMC for the buildings sold.

.13 On further investigation we also found that on June 6, 1990 an agreement was signed with SPMC retroactively transferring ownership of these buildings to the Department. The sale proceeds then became the property of the Department.

Rental Collection Required

.14 The Financial Administration Manual (FAM) issued by the Department of Finance governs collection procedures the Department should follow. We found the Department did not follow the collection procedures set out in the Manual for certain rentals due from lessees for operation of provincial park services.

.15 The Provincial Parks Regulations authorize the Department to execute commercial lease agreements. The lessees provide services such as rental accommodation and restaurant and lounge facilities at provincial parks.

.16 The lease agreements require lessees to pay the Department rentals as follows:

- a minimum annual rental during July and August;
- a final rental by November 15 based on a percentage of gross revenue for the operating season ended October 31;

.17 Lessees must submit a certified statement of the amount of gross revenue during the operating season ended October 31 by December 31.

.18 We found the Department identified certain lessees that did not comply with the rental agreements. However, the Department did not comply with the FAM. It did not commence active collection procedures for these rentals. At March 31, 1990, lessees owed $149,308 for rentals related to the following years.

Operating Season Ending	Unpaid Rentals
October 31, 1989	$ 91,836
October 31, 1988	45,625
October 31, 1987	11,847
	$149,308

FISH AND WILDLIFE DEVELOPMENT FUND

.19 The Department manages the Fish and Wildlife Development Fund. It uses the Fund to finance fish and wildlife development projects.

Payments Require Authority

.20 Subsection 17(2) of The Government Organization Act states:

> *"The minister shall obtain the approval of the Lieutenant Governor in Council before entering into an agreement under subsection (1), other than an agreement for the purpose of section 15 and 16, whereby the Government of Saskatchewan is liable to make expenditures in excess of $10,000 in any fiscal year."*

.21 Sections 15 and 16 permit the Minister to engage the services of advisors, specialists and consultants and appoint advisory committees.

.22 The Minister executed four agreements, which required expenditures to be made in excess of $10,000 from the Fund. The approval of the Lieutenant Governor in Council was not obtained as required by The Government Organization Act. The payments made under these agreements totalled $84,907.

.23 In our opinion, because the Department did not get the approval of the Lieutenant Governor in Council it did not have authority to make payments under the above agreements.

RESOURCE PROTECTION AND DEVELOPMENT REVOLVING FUND

.24 The Department manages the Resource Protection and Development Revolving Fund.

Recovery Rates Require Approval

.25 The Department charges fees to recover costs incurred by the Fund.

.26 Section 13 of The Renewable Resources, Recreation and Culture Act states the Minister may charge a fee to recover amounts incurred by the Fund to provide services.

.27 In addition, FAM requires the Department to submit the Fund's budget to Treasury Board. The budget must include projected revenues, including a summary of recovery rates and an outline of the methodology and assumed activity levels for such rates.

.28 We found program managers of the respective branches of the Fund determined the rates. The budget sent to Treasury Board for 1989-90 contained the projected branch revenues, but not a summary of recovery rates for all branches. In particular, the Equipment Rental Branch did not include a summary of recovery rates and an outline of the methodology and assumed activity level for such rates.

.29 As a result, the Department did not have authority for the recovery rates used by the Fund.

CHAPTER 22

DEPARTMENT OF SOCIAL SERVICES

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CHAPTER 22

DEPARTMENT OF SOCIAL SERVICES

Claims for Cost Shared Programs

.01 Most of the Department's costs are shareable with the Federal Government.

.02 The Department has a system to identify and recover shareable costs. However, the system did not identify shareable costs where clients were receiving allowances from both the Family Income Plan and the Saskatchewan Assistance Plan for less than six months.

.03 The Department did not identify these costs for the years 1985 to 1989 until 1990. As a result, it was late in making the claim on the Federal Government for the recovery of these costs. The claim for these years totalled $1,850,000.

.04 The Department did not identify shareable costs for the 1989-90 fiscal year. As a result, at the date of this report it has not made a claim for the recovery of these costs.

.05 In our opinion, the system was not adequate to assess and collect this revenue on a timely basis.

Contingency Plan

.06 The Department uses computers to keep most of its records. The Department should have a written and tested contingency plan that ensures it can continue to operate in the event of a major loss or destruction of records. It must be able to recover and reconstruct critical records.

.07 The Department does not have a written and tested plan to ensure its continued operation in the event of a major loss or destruction of records.

.08 Accordingly, the Department may not be able to continue to operate in a timely and effective manner in the event of a major loss or destruction of records. The Department told us they are developing a plan.

Employment Development Program Payments Require Authority

.09 Section 17 of the Government Organization Act allows the Minister to execute agreements for the Department. However, the Minister needs the approval of the Lieutenant Governor in Council when expenditures under an agreement are liable to exceed $10,000.

.10 During 1989-90, the Minister executed service agreements with various non-government organizations under the Saskatchewan Employment Development Program without the approval of the Lieutenant Governor in Council. Payments on those agreements exceeding $10,000 totalled approximately $772,310 for the 1989-90 fiscal year.

.11 In our opinion, the payments under these agreements lacked authority.

.12 The Department told us that for the 1991 fiscal year these agreements are being approved by the Lieutenant Governor in Council.

Skills Development Program Payments Require Authority

.13 The Department administers the Saskatchewan Skills Development Program under The Department of Social Services Act.

.14 We found the Program was not established by regulation as required by Section 19 of the Act. Therefore, the Department did not have authority to make payments under this Program.

.15 In our opinion, payments totalling $5.8 million made under this Program were without authority.

.16 The Department told us they are reviewing the legislation for this Program.

CHAPTER 23

INVESTMENT CORPORATION OF SASKATCHEWAN

Ability to Discharge our Duties

.01 The Investment Management Provisions Act came into force June 1, 1988. It permits certain government pension funds and crown agencies to contract for investment management services.

.02 The Investment Corporation of Saskatchewan (ICS) was incorporated under The Business Corporations Act of Saskatchewan to satisfy the need for professional investment management services. Its shareholders are government pension funds and crown agencies.

.03 Our lawyer has advised us that ICS is a crown agency. Therefore, it is subject to an audit under The Provincial Auditor Act.

.04 ICS has legal advice that it is not subject to an audit under The Provincial Auditor Act. ICS believes it is an independent competitive investment counsel, not a crown agency.

.05 There is a conflict of interpretation between two legislative schemes. The Provincial Auditor's Act governs the public accountability of crown agencies to the Legislative Assembly. The Investment Provisions Amendment Act permits government pension funds and crown agencies to obtain independent professional investment services.

.06 Because ICS believes it is not a crown agency, it has not permitted us to discharge our duties to audit ICS for December 31, 1988 and December 31, 1989.

.07 As the Premier requested in his June 6, 1989 memorandum, we referred this problem to the Secretary of Treasury Board on July 26, 1990. At the date of this report, we cannot discharge our duties to audit ICS.

.08 If it is the Legislative Assembly's intent that we should not audit ICS, we recommend a change to the law to make that intention clear.

CHAPTER 24

PROVINCIAL SECRETARY

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CHAPTER 24

PROVINCIAL SECRETARY

MEMBERS OF THE LEGISLATIVE ASSEMBLY SUPERANNUATION FUND

.01 The Provincial Secretary is responsible for the Members of the Legislative Assembly Superannuation Fund. The Department of Finance conducts the day to day business of the Fund.

Control Over Investment Income

.02 The rules and procedures to control investment income were not adequate.

.03 The investment of money has been delegated to a trustee. The Trustee makes monthly reports to the Department showing all transactions made, the investments on hand and accrued income recorded for each investment. The Department uses these reports to record investment income in the Fund's accounts.

.04 The Department does not check the investment income reported by the trustee.

.05 As a result, errors in investment income may go undetected.

Payments Require Authority

.06 We also found the following instance of non-compliance with legislative authorities.

.07 Section 26.1 of The Members of the Legislative Assembly Superannuation Act, 1979, states:

> *"Where a person who was a member and:*
>
> *a) is entitled to or in receipt of a supplementary monthly allowance pursuant to section 25, 25.1 or 26; or*
>
> *b) was entitled to a supplementary monthly allowance pursuant to section 25, 25.1 or 26 that has been discontinued under Section 37.1;*
>
> *dies leaving a spouse, 60% of the supplementary monthly allowances that he was*

> *receiving or that he was or would have been entitled to pursuant to sections 25, 25.1 and 26 shall be paid to his spouse for life."*

.08 When a member dies and was in receipt of an annual allowance and the supplementary allowance, the spouse's pension is 60% of both the annual (section 19) and the supplementary allowance (section 26.1). In the years following the death of the member, the spouse receives 100% of any new annual supplementary allowances granted.

.09 It is our view that the 60% rule contained in section 26.1 also applies to new supplementary allowances. Therefore, all new supplementary allowances granted after the date of death of a member paid on a 100% basis exceed the amounts that would be permitted under the current legislation.

.10 The Minister responsible for the Fund told us that the Department of Finance will pursue a legislative change with respect to this matter.

.11 We also reported this matter in our previous annual reports.

Annuity Underwriting

.12 The Department underwrites annuities for members and pays these annuities out of the Fund. When annuity contracts are written, money should be set aside to make the future payments. Due to uncertainties related to future trends and events such as investment earnings and changes in mortality rates the amount set aside may be insufficient to make future payments.

.13 The law does not specify the source of funding for any future deficiency. Also, the financial statements of the Fund do not separately show the results of the annuities underwritten.

.14 We have reported this matter in past years. We report this matter again as the number of pensioners being paid annuities out of the Fund is increasing.

.15 We recommend a change to the law to specify the handling of deficits and surpluses. We also recommend a change to the financial statements to show the results of the annuities underwritten.

CHAPTER 25

SASKATCHEWAN BEEF STABILIZATION BOARD

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CHAPTER 25

SASKATCHEWAN BEEF STABILIZATION BOARD

.01 Our annual report for 1989 states that we had not completed our audit of the Board's accounts for the year ended March 31, 1989. We have now completed our audits for 1989 and 1990.

.02 The Board manages The Feeder Finish and Cow Calf to Finish Market Insurance Plans. These Plans form part of the financial statements of The Saskatchewan Agricultural Returns Stabilization Fund.

.03 Our annual report for 1989 also states that we had not completed our audit of the accounts of the Fund for the year ended March 31, 1989. We have now completed our audit for 1989.

Public Accountability

.04 In our opinion, the accounts of the Board and the Fund have not been faithfully and properly kept to permit the preparation of timely and accurate financial statements. As a result, public accountability for financial results was not adequate.

.05 To prepare timely and accurate financial statements, the Board needs to give priority to the maintenance of records and the preparation of financial statements.

.06 Our audit found the Board was unable to provide accurate, complete, and timely financial information on its operations to allow the timely preparation of financial statements.

.07 We did not receive required information on a timely basis. For example, we did not receive all information on the Tripartite program until thirteen months after the March 31, 1989 year end.

.08 Financial data for the Fund presented to us for audit was often inaccurate or incomplete. We discussed the errors we found with management. We felt the errors needed to be corrected to ensure accurate financial statements. Management chose to correct the accounts and the financial statements.

.09 The completion of the audits was postponed several times due to deficiencies and delays in preparation of the information for audit. The Board was unable to give its 1989 financial statements to the Legislative Assembly by the date required by law because of these delays and deficiencies. As of the date of this report the Board has not prepared the 1990 financial statements for the Fund.

.10 The Board told us it has hired additional staff in the 1990-91 fiscal year.

Loss on Investments that Lack Authority

.11 Our audit also found the Board invested $601,982 in the beef futures market without receiving the approval of the Lieutenant Governor in Council. The Board incurred a loss of $461,609 on these investments.

.12 Subsection 7(3) of The Feeder Finish Market Insurance Plan Regulations states:

> *"The Board may invest any part of the funds in the account not presently required for the purposes of these regulations in any securities or class of securities referred to in section 36 of The Department of Finance Act (now section 27 of The Financial Administration Act), and the amount of any income from those investments is to be deposited in the account."*

.13 Section 27 of The Financial Administration Act, 1988 states:

> *"(1) The minister may invest any part of the consolidated fund not presently required for expenditure in:*
>
> *(a) any class of investments mentioned in The Pension Benefits Regulations;*
>
> *(b) bonds, debentures, notes or other evidences of indebtedness issued by a Crown corporation;*
>
> *(c) any class of investments, in addition to those described in clauses (a) and (b), that the Lieutenant Governor in Council may authorize"*

.14 In our opinion, the Board did not have adequate authority for the investment in beef futures.

Billings Required

.15 The Board did not bill the Department of Agriculture and Food the full amount of the levies due under the Cow Calf and Feeder Finish Market Insurance Plan Regulations.

.16 Subsection 7(2) of these regulations state:

> *"After the end of each quarter and on notification from the board, the department shall pay into the account an amount equal to the levies charged to participants for that quarter from funds appropriated under the Act."*

.17 We found the Board billed the Department an amount equal to the levies collected from participants instead of the levies due from these participants. The billings should have included $1,490,000 of uncollected levies from participants at March 31, 1989. Of this amount, approximately $1,100,000 should have been billed in prior years.

.18 In our opinion, the Board has not complied with the regulations governing billings to the Department.

Stabilization Payments

.19 We reported in prior years the Board has established a policy called the "Borrow Ahead" option. In our opinion, this option is not provided for in the regulations governing payments to producers.

.20 Producers who receive stabilization payments under the Board's "Borrow Ahead" option policy receive double stabilization payments in one fiscal year.

.21 Under this policy, a producer who has received stabilization payments from this year's contracts can also receive stabilization payments for next year's contracts in this fiscal year if the animals for next year's contracts are ready for slaughter. Typically, these are cases where a producer would normally slaughter animals in April or May every year but, in 1989, animals were ready for slaughter in March. The Board allowed the producers to slaughter animals in March, though they had slaughtered their "quota" earlier in the fiscal year (April or May, 1988).

Payment Requires Authority

.22 Our 1985 annual report stated that the Board refunded producer levies under the Cow Calf Plan and the Feeder Finish Plan without authority. The Board refunded levies to producers that chose to leave the plan if they paid levies beyond the amount received in stabilization benefits. At the time the Board felt the regulations governing these plans gave authority to make these refunds.

.23 Section 24 and 19(6) of the governing regulations state:

> *"A participant may withdraw from the plan, with the Board's permission, if he pays to the Board all of the payments that he has received under the plan with interest less any levies deducted."*

.24 According to our lawyer, the Board would not be allowed to make refunds under these sections of the regulations. Since March 31, 1985, the Board has revised its interpretation and has been conforming with the regulations.

.25 The Board paid a refund to a producer who was a Board member during the 1989-90 fiscal year for $19,860. The producer's withdrawal application was dated March 27, 1985. The Board calculated the amount of the refund as the excess of levies paid by the producer over stabilization payments received while enrolled in the Feeder Finish Plan.

.26 In our opinion, this refund lacks legislative authority.

Animals Enrolled in the National Tripartite Program Require Verification

.27 The Board is the Government of Saskatchewan's agent for the National Tripartite Program. Under the Program the Board is responsible to verify the existence of the animals registered by producers through field inspections or other means.

.28 The Board did not have procedures in place to verify the existence of the number of animals registered by producers in the National Tripartite Program.

.29 In our opinion, the Board did not comply with the terms of the Program because of the lack of procedures to verify the existence of the number of animals registered by producers. As a result, the Government does not know if it is paying the correct amount to the Federal Government.

.30 The Board told us that it is developing the procedures needed to verify the animals registered by producers.

Systems Development Controls

.31 The Board developed a new computer system during 1989-90. The new system will be used to keep records for the Tripartite Program.

.32 It is important to have effective controls over systems development. This is necessary to ensure new systems will work, meet user needs and be completed on time and on budget. Users also must be confident about the accuracy of the system.

.33 The Board did not adequately plan and put into place the new system for the Tripartite Program. As a result, the system did not work properly. It had many system control deficiencies, and prevented the Board from complying with its obligations under the Program. It also resulted in an instance where the Board processed information incorrectly.

.34 Examples of the deficiencies are as follows.

i) Premiums from producers were not assessed and collected on a timely basis.

ii) The Board was unable to determine the amount of producer overpayments on premiums as of March 31, 1990 for financial statement reporting purposes.

iii) The Board sent incorrect information to the federal government for stabilization payments to producers. It included producers who had not paid premiums on their enrolled animals.

As a result, the federal government made stabilization payments totalling $13,671 to 30 producers that had not paid the full amount of their premiums.

iv) There was no evidence of management controls in place to ensure all payables and receivables appearing on producer's quarterly and annual reports were properly calculated by the Board. As a result, the statements may contain errors.

v) There was a lack of segregation of duties because the Board did not adequately restrict access to computer programs and data. As a result, data or programs may be changed without authorization.

vi) Changes to producers' accounts were not always approved and did not always have proper supporting documentation. As a result, inappropriate or incorrect changes could be made to a producer's accounts receivable or payable balances.

vii) The Program requires all producers to submit quarterly and annual reports of changes in the number of animals insured and sales of insured animals. The Board's system does not ensure it receives those reports from all producers on a timely basis.

.35 The Board told us it developed a new system for the Program in the 1990-91 fiscal year. In its view the new system corrected the deficiencies shown in paragraph .34.

CHAPTER 26

SASKATCHEWAN CENTRE OF THE ARTS

Policies and Procedures Manual

.01 We found the Centre's policies and procedures manuals were not current and complete.

.02 The Centre should have written policies and procedures to ensure employees are carrying out their duties in the proper manner.

.03 In our opinion, without current policies and procedures, accounting control procedures could breakdown if there is a change in staff or duties of the staff.

.04 The Centre informed us it is in the process of updating its manual.

CHAPTER 27

SASKATCHEWAN CROP INSURANCE CORPORATION

Controls Over Indemnity Payments

.01 The Corporation's rules and procedures did not adequately segregate the duties of employees.

.02 Segregation of duties is inadequate when one person can conceal an error or fraud. With computer systems, restricting the ability of employees to access the computer and its programs and files will result in an adequate segregation of duties.

.03 The Corporation has not adequately restricted access to the Corporation's computer files.

.04 Indemnity payments made by the Corporation amounted to $449,653,069 for the fiscal year ended March 31, 1990. These payments are calculated by a computer program. The program uses the master files and data files created during the premium assessment process. Since access controls over the computer and its files and programs are not adequate, the Corporation lacks assurance that the master files are completely accurate. Testing done on indemnity payments for the fiscal year ended March 31, 1990 did not reveal any material errors.

.05 In our opinion, the Corporation's rules and procedures were not sufficient to ensure the accuracy of indemnity payments.

.06 The Corporation is developing a new computerized indemnity payment system that may address the above concerns.

.07 We also reported this matter in our 1989 annual report.

Appointed Auditor's Report

.08 The Provincial Auditor Act requires us to conduct additional audit procedures when we are unable to rely on the report of an appointed auditor.

.09 The appointed auditor did not report a deficiency in the Corporation's rules and procedures to safeguard and control public money. Therefore, we were unable to rely on the report of the appointed auditor for the year ended March 31, 1990.

.10 The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct additional audit procedures. The reporting or non-reporting of the matters in paragraph .09 is subject to judgement.

CHAPTER 28

SASKATCHEWAN FOREST PRODUCTS CORPORATION

System to Produce Accurate Financial Statements

.01 The Corporation's systems did not produce accurate financial statements. Accurate financial statements are necessary to control the operations of an organization.

.02 Management's review of the financial statements and accounting records was not adequate to find material errors in the accounts.

.03 Significant errors in the accounting records were found during the audit. After discussion, management corrected the records.

CHAPTER 29

SASKATCHEWAN HOUSING CORPORATION

.01 Our 1989 annual report states we had not completed our audit of the Corporation for the year ended December 31, 1988. We have now completed our audit.

Appointed Auditor's Report

.02 We found we were able to rely on the appointed auditor except their report makes no reference to the lack of authority for the Home Improvement Plan.

.03 The Provincial Auditor Act requires us to conduct additional audit procedures when we cannot rely on the report of an appointed auditor.

.04 The appointed auditor's procedures were sufficient to allow us to form our opinions for the Corporation's 1988 year. Therefore, we did not have to conduct additional procedures to discharge our responsibilities. The reporting or non-reporting of the matter in paragraph .02 is subject to judgement.

Lack of Authority for the Home Improvement Plan

.05 The Corporation introduced the Home Improvement Plan in 1986. The plan gives financial assistance to homeowners for improving their properties. Homeowners could receive a grant and a loan guarantee with an interest subsidy.

.06 Section 13 of The Saskatchewan Housing Corporation Act states:

> *"The objects of the corporation are:*
>
> *(a) to promote and carry out the construction and provision of more adequate and improved housing:*
>
> *i) for low income families and individuals;*
> *ii) for students;*
> *iii) for such elderly person or class or classes of elderly persons as may be designated by the corporation;*

> *iv) for families and individuals receiving social allowances or social assistance; and*
>
> *v) generally, for persons or groups which in the opinion of the corporation require assistance;*
>
> *(b) to improve the quality of housing; and*
>
> *(c) to improve the quality of amenities related to housing"*

.07 We were concerned that the Home Improvement Plan lacked legislative authority. This caused us to get a legal opinion in 1987. According to our lawyer the Corporation does not have the power to improve the quality of housing and the quality of amenities related to housing for all homeowners. In his opinion, the powers of the Corporation are restricted to housing for those groups or persons set out in subsection 13(a).

.08 The Corporation has a legal opinion stating it has legislative authority for the Home Improvement Plan.

.09 This is a complex legal issue. However, by reason of the legal opinion provided to us by our lawyer, we are unable to conclude that the Corporation had adequate legislative authority for the Home Improvement Plan.

CHAPTER 30

SASKATCHEWAN INSTITUTE OF APPLIED SCIENCE AND TECHNOLOGY

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Contingency Plan	.21
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CHAPTER 30

SASKATCHEWAN INSTITUTE OF APPLIED SCIENCE AND TECHNOLOGY

.01 The Institute's rules and procedures were not adequate to safeguard and control public money.

Budgetary Controls

.02 Budgetary controls are important because they set out expected results. Such controls allow management to compare actual results to expected results. When there are differences management can seek answers and take corrective action. Budgets should be in enough detail to provide controls by cost centre.

.03 We found the Institute did not always record actual costs incurred in the cost centre in which the cost was budgeted. As a result, the budgetary controls could not adequately function because management did not have accurate information showing differences between actual costs and budgeted costs.

.04 The lack of accurate information limits management's ability to effectively monitor and control the operations of the Institute.

Segregation of Duties

.05 The Institute did not adequately segregate the duties of employees handling receipts. Segregation of duties is inadequate when one person can conceal an error or fraud.

.06 One employee at head office opened the mail, recorded the receipt of money and had access to the related accounting records.

.07 In our opinion, this lack of segregation of duties allows money to be misapplied without timely detection.

.08 We also found the Institute did not adequately segregate the duties of persons using its computer systems. With computer systems, restricting the ability of persons to access data and computer programs results in an adequate segregation of duties.

.09 Employees were able to bypass the normal controls that restrict access to data and programs when they used an information retrieval program.

.10 In our opinion, this lack of segregation of duties could result in unauthorized changes to the data files without timely detection.

Controls Over Revenue

.11 The Institute provides programs under contracts. The revenue from these contracts is directly related to the costs incurred for each contract.

.12 The Institute has rules and procedures to ensure all revenue from these contracts is billed and recorded on a timely basis. However, employees did not always follow the established procedures with respect to the timely billing and recording of contract revenue.

.13 As a result, contract revenue was not billed and recorded on a timely basis.

.14 We also reported this matter in our 1989 annual report.

Approval and Supporting Documentation for Journal Entries

.15 The Institute must ensure its accounts are faithfully and properly kept. Accordingly, all entries made to the records, including journal entries, must have adequate supporting documents and proper approvals.

.16 We found that procedures were not adequate to ensure proper documentation and approval of journal entries.

.17 As a result, accounts might be misstated without timely detection.

.18 We also reported this matter in our 1989 annual report.

Controls to Prevent Duplicate Payments

.19 The Institute has rules and procedures to ensure suppliers are not paid twice. We found the rules and procedures to prevent duplicate payments were not always followed.

.20 As a result, duplicate payments may occur resulting in a loss of public money.

Contingency Plan

.21 The Institute uses computers to operate its systems. These systems are critical to the Institute's operations.

.22 The Institute should be able to operate during abnormal circumstances. It needs a written contingency plan for employees to follow if a major loss or destruction of records occurs. One part of this plan is the ability to recover or reconstruct critical records that are lost or destroyed. The Institute should document its plan including the computer procedures and manual procedures. It should also test the plan to make sure it works.

.23 The Institute did not have a written and tested plan in place for employees to follow if a major loss or destruction of records occurs. If such an event occurs the Institute may not be able to recover in a timely and efficient manner.

.24 We also reported this matter in our 1989 annual report.

Unauthorized Deficit

.25 Section 20 of The Institute Act prohibits the Institute from incurring a deficit unless approved by the Minister. At June 30, 1989, the Institute had a deficit of $1,018,695. The Minister has not approved the deficit.

.26 In our opinion, the Institute did not comply with Section 20 of The Institute Act.

CHAPTER 31

SASKATCHEWAN LIQUOR BOARD

Payment Requires Authority

.01 Section 16 of The Interpretation Act states in part:

> *" 16(1) words authorizing the appointment of a public officer or functionary include the power:*
>
> *(e) of fixing his remuneration and expenses and varying them and terminating them;*
>
> *in the discretion of the authority in whom power of appointment is vested."*

.02 The Alcohol Control Act was proclaimed January 2, 1989. The Act continued the Liquor Board as a body corporate and continued the appointment of its Chairman. An Order in Council appointed the Chairman of the Board.

.03 After completing a study, the Liquor Board changed its management structure and management remuneration. The Minister-in-Charge signed a memorandum specifying the Chairman's remuneration as $115,000 per year effective January 1, 1989 and $119,600 per year effective July 1, 1989.

.04 In our opinion, The Interpretation Act requires the remuneration of the Chairman to be fixed by Order in Council. Since an Order appoints the Chairman, his remuneration can only be changed by another Order.

.05 Order in Council 371/87 which appointed the Chairman fixed the salary as $60,000 per year and Order in Council 793/90 confirmed the appointment and this salary.

.06 In our opinion, the salary paid to the Chairman in excess of the amount specified in Order in Council 371/87 lacks legislative authority.

.07 We also reported this matter in our 1989 annual report.

CHAPTER 32

SASKATCHEWAN POWER CORPORATION

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CHAPTER 32

SASKATCHEWAN POWER CORPORATION

Authority for the Sale of the Natural Gas Business

.01 In May 1988, Saskatchewan Power Corporation (SaskPower) created the Saskatchewan Energy Corporation (SaskEnergy) under The Business Corporations Act.

.02 On June 1, 1988 SaskPower sold its natural gas assets to SaskEnergy. The assets sold represent almost all the natural gas business of SaskPower. Order in Council 1089/89 approved this sale. The Order referred to the need for SaskPower to appoint SaskEnergy as its agent, for its exclusive right to supply, transport, distribute and sell natural gas in Saskatchewan as provided in The Power Corporation Act.

.03 On December 31, 1989 SaskPower sold SaskEnergy to the Crown Investments Corporation of Saskatchewan (CIC). Order-in-Council 1091/89 approved this sale.

.04 We questioned SaskPower's authority to sell its natural gas business. We were also concerned with the affect the sale may have on the accountability of SaskPower for the natural gas business. This caused us to ask our lawyer for an opinion on this matter.

.05 In the opinion of our lawyer, the scheme and object of The Power Corporation Act is to establish a corporation with the exclusive mandate to supply, transport, distribute and sell electrical energy and gas in the areas of the Province stated in section 38 of the Act; it is the clear legislative intent that this mandate will be the exclusive right and duty of SaskPower; and there is no power in the Act for SaskPower to abrogate (relieve itself of) its mandate by selling its natural gas business.

.06 Also, it is our lawyer's opinion that based on the terms of the sale agreement, SaskEnergy is carrying on the natural gas business on its own behalf and not on the behalf of SaskPower and accordingly, SaskEnergy is not an agent of SaskPower.

.07 Our lawyer also expresses the opinion that SaskPower is a creation of the Legislature not the Executive government and therefore, the power to delegate its authority as agent of the Crown must be found in the Act. In our lawyer's opinion the only power to delegate any part of its mandate, found in the Act, is in subsection 2 of section 38. However, that subsection does not allow the sale of the entire natural gas business of SaskPower. As a result, in our lawyer's opinion the Executive government cannot make SaskEnergy an agent of SaskPower by Order in Council.

.08 SaskPower has opinions from two lawyers regarding its authority to sell the natural gas business. In the opinion of both such lawyers it is not beyond SaskPower's authority to transfer the natural gas assets to SaskEnergy and later to sell SaskEnergy to CIC, with approval of the Lieutenant Governor in Council.

.09 This is a complex legal issue. However, by reason of the legal opinion provided to us by our lawyer, we are unable to conclude that SaskPower had adequate legislative authority respecting the sale of its natural gas business to SaskEnergy and the later sale of SaskEnergy to CIC.

.10 Therefore, if SaskEnergy is going to operate the natural gas business we recommend the Act be changed or legislation passed to clarify SaskPower's authority to sell the business. This legislation should also ensure the accountability of SaskEnergy to the Legislative Assembly is similar to that of SaskPower.

Authority for Producers Directly Supplying Gas to Consumers

.11 During the audit of the Department of Energy and Mines, we found that natural gas producers supplied gas directly to consumers and billed them directly. The producers paid a charge to a SaskEnergy subsidiary company for use of that company's transportation system for delivery of gas to consumers.

.12 By law, SaskPower may consent to someone else supplying gas "in any specified area" (Section 38(2) of the Act). SaskPower has consented to natural gas producers supplying gas directly to individual consumers. However, in the opinion of our lawyer, the statutory provision relied upon does not permit SaskPower to delegate the right to supply particular consumers but only all consumers in specific geographic areas. It is our lawyer's opinion that the clear intent of this provision is to permit others to supply gas or electrical power where SaskPower does not have the ready ability to do so.

.13 SaskPower has opinions from two lawyers stating it has authority to allow natural gas producers to supply individual consumers.

.14 This is also a complex legal issue. In our opinion, by reason of the legal opinion provided to us by our lawyer, we are unable to conclude that SaskPower has the legislative authority to consent to the supply and sale of natural gas to individual consumers.

.15 Therefore, if SaskPower is going to consent to the supply and sale of natural gas to individual consumers, we recommend the Act be changed or legislation passed to clarify SaskPower's authority in this regard.

Reservation in our Auditor's Report

.16 The Provincial Auditor Act requires us to give details of any reservation of opinion made in our auditor's report.

.17 Our opinion on the financial statements of SaskPower for the year ended December 31, 1989 contains a reservation. Our opinion on these financial statements follows:

> *Effective December 31, 1989, the Corporation sold its investment in a wholly owned subsidiary to Crown Investments Corporation of Saskatchewan and recorded an extraordinary gain amounting to $226 million. Had the investment been sold to a non-related party, the Corporation's treatment would be in accordance with generally accepted accounting principles. However, as the investment was sold to a related party, in my opinion the gain should have been recorded as an equity advance. Had the gain been recorded as an equity advance, extraordinary items, net income and retained earnings at the end of the year would have been reduced by $226 million, and equity advances would have been increased by $226 million.*
>
> *In my opinion, except for the effects of recording a gain on sale of an investment to a related party as an extraordinary gain in net income rather than as an equity advance as referred to in the preceding paragraph, these*

> *financial statements present fairly the financial position of Saskatchewan Power Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.*

.18 Our opinion advises that under generally accepted accounting principles SaskPower should not have included in net income the gain of $226 million from the sale of SaskEnergy to CIC because CIC is a related party.

Appointed Auditor's Report

.19 We relied on the report of the appointed auditor, compiled in Appendix II, except for the matters in paragraph .20.

.20 The appointed auditor's report does not refer to the legal issues regarding the legislative authority of SaskPower to sell its natural gas business to SaskEnergy, to sell SaskEnergy to CIC, or to allow natural gas producers to supply natural gas directly to individual consumers.

.21 The Provincial Auditor Act requires us to conduct additional audit procedures when we are unable to rely on the report of an appointed auditor.

.22 Since the matters in issue were of a legal nature, the additional audit procedures consisted of seeking legal advice and discussing issues with SaskPower.

CHAPTER 33

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

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CHAPTER 33

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

.01 Our 1989 annual report states that as of March 9, 1990 the audit of Saskatchewan Property Management Corporation (SPMC) was not complete. The audits for 1989 and 1990 are now complete.

Appointed Auditor's Report

.02 The appointed auditor audited SPMC's financial statements, internal controls and compliance with authorities for both years.

.03 We were able to rely on the appointed auditor's report on compliance with authorities for both years. The matters reported by the appointed auditor are described in paragraphs .08 to .18.

.04 We were unable to rely on the appointed auditor's report on the financial statements for both years because the reports did not include the matters described in paragraphs .19 to .44.

.05 We were also unable to rely on the appointed auditor's report on internal controls for both years because they did not include the matters described in paragraphs .45 to .46.

.06 The Provincial Auditor Act requires us to conduct additional audit procedures when we cannot rely on the report of an appointed auditor. The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct additional audit procedures to discharge our responsibilities.

.07 We report deficiencies in SPMC's rules and procedures to safeguard and control public money, its compliance with authorities and its financial statements as follows.

Compliance With Authorities

.08 In our opinion, SPMC did not comply with the following legislative and related authorities.

Revenue Improperly Retained

.09 SPMC retained revenue from the sale of surplus assets that belongs to the Consolidated Fund.

.10 Section 9 of The Purchasing Act requires money received from the sale of surplus assets to be deposited into the Consolidated Fund if they were purchased from money appropriated from the Consolidated Fund.

.11 SPMC retained $240,000 during the year ended March 31, 1990, (1989-$230,000) from the sale of surplus assets purchased from money appropriated out of the Consolidated Fund. These amounts were not deposited into the Consolidated Fund.

.12 SPMC treated the amounts retained for the last three years as revenue in its financial statements.

.13 In our opinion, SPMC has not complied with Section 9 of the Purchasing Act. Further, SPMC's financial statements over the last three years overstate revenue by $1,545,000.

.14 Management has indicated that they, and officials from the Departments of Finance and Justice, are working to resolve this problem.

Agreement With the Department of Parks and Renewable Resources

.15 SPMC executed an agreement with the Department of Parks and Renewable Resources for the construction of Public Works in Provincial Parks.

.16 During the year, SPMC paid an amount of $740,000 under the agreement for costs incurred on capital projects. None of the payments were supported by the documents required by an agreement with the Department.

.17 In our opinion, these payments were not properly vouchered and certified.

.18 In July 1990, the agreement was changed to remove the need for the Department to supply SPMC with the documents previously required.

Opinion on Financial Statements

.19 In our opinion, the March 31, 1990 and 1989 financial statements of SPMC present fairly the financial position, results of operations and changes in financial position of SPMC in accordance with generally accepted accounting principles except as described in this Chapter.

Depreciation on Real Estate Properties

.20 In 1988 SPMC used an inappropriate accounting policy to record depreciation on properties in their financial statements.

.21 In the Statement of Income and Retained Earnings, depreciation is overstated and net income is understated for the year ended March 31, 1990 by $660,000 (1989-$660,000). In addition, in the Statement of Financial Position as at March 31, 1990 the amounts for Real Estate and Investments, and Retained Earnings are overstated by $10,880,000 (1989-$11,540,000).

.22 Management have undertaken to restate their 1991 financial statements to include the depreciation.

Accommodation Revenue and Participation Credit Recorded

.23 SPMC receives almost all its revenues from government departments and agencies (related parties).

.24 When SPMC invoices the departments, it deducts a participation credit from the accommodation charge to arrive at the net amount of rent actually charged on the invoice and paid by the departments. The Appropriation Acts authorize the departments to pay only the net amount of accommodation revenue. However, SPMC's financial statements report the gross amount of the accommodation charge as revenue and the participation credit as expense.

.25 Generally accepted accounting principles provide that revenue from sales and service transactions should not be recognized unless at the time of performance ultimate collection is reasonably assured. Since the departments are permitted by law to only pay the net amount of accommodation revenue, only the net amount should be recorded as revenue.

.26 As a result, the financial statements overstate accommodation revenue and the related participation credit expense by $52 million each (1989 - $54 million).

.27 Management has undertaken to remove the participation credit from their 1991 financial statements.

Furniture Not Recorded

.28 During 1986 and 1987, all capital assets previously administered by the Department of Supply and Services were transferred to SPMC. These capital assets include real estate, vehicles, aircraft, computer equipment, furniture, fixtures, fittings and incidental office equipment.

.29 These are the capital assets used by all government departments and several agencies throughout the Province.

.30 Except for furniture, fixtures, fittings, and incidental office equipment (furniture), all capital assets transferred to SPMC were appropriately valued at fair market value.

.31 SPMC did not record the furniture transferred to it. According to management, these capital assets are not recorded because they are not significant to SPMC's operations.

.32 However, SPMC has not done a study to show whether or not the market value of the furniture is significant.

.33 In addition, until 1990, all purchases of furniture by SPMC were expensed immediately.

.34 In 1990, SPMC changed its accounting policy to one that records furniture purchases as capital assets and depreciates them over their estimated useful lives. This accounting policy was applied retroactively to April 1, 1987. As at March 31, 1990, the financial statements of SPMC show furniture as a capital asset in the amount of $4.4 million.

.35 However, SPMC still has not recorded the furniture initially transferred to it.

.36 We believe that the furniture transferred to SPMC is significant.

.37 According to SPMC's records, the 1985 cost of providing furniture for an employee is in the range of $500 to $8,600 depending on staff level. In 1986/87, there were about 13,500 employees.

.38 Further evidence that the furniture is significant is contained in a transfer of assets to the Saskatchewan Institute of Applied Science and Technology (SIAST). In 1988, furniture and equipment was transferred from a government department to SIAST. This furniture and equipment was recorded at fair market value by SIAST and is significant.

.39 In our opinion, this information indicates that the value of furniture transferred to SPMC is significant. We cannot reasonably determine the precise value of this furniture because of the lack of detailed records of the furniture on hand.

.40 In our opinion, the policy of not recording furniture is not in accordance with generally accepted accounting principles.

Disclosure of Related Party Transactions

.41 During 1987-88 SPMC assigned approximately 400 items of real estate, consisting of land, buildings and other structures, a value of $0 and charged almost no rent on these assets.

.42 Note 13 to the financial statements does not describe the nature and extent of accommodation provided to government departments and agencies at no charge or nominal value.

.43 In our opinion, note 13 to the financial statements does not adequately show the nature and extent of these related party transactions.

.44 Management has undertaken to describe the value and extent of these related party transactions in their 1991 financial statements.

Documentation Required for the Transfer of Assets

.45 Real estate properties previously administered by government departments were transferred to SPMC. As a result, SPMC was faced with the difficult task of valuing hundreds of pieces of property to produce information to safeguard and control these assets and for financial reporting purposes. Management has made considerable progress in this regard.

.46 Further effort is still necessary because we found that documentation supporting the transfer of assets from government departments to SPMC was not complete and accurate for many properties assigned a nominal value.

.47 Management has undertaken to document in formal agreements all the assets transferred by March 31, 1991.

CHAPTER 34

SASKATCHEWAN TRANSPORTATION COMPANY

Ability to Discharge our Duties

.01 We have not been able to discharge our duties to the Legislative Assembly because we did not receive all the reports we requested from the Company's appointed auditors.

.02 Peat Marwick Thorne were appointed to examine the Company. In November 1989, we asked them for reports and advised that we planned to rely on their reports to discharge our duties.

.03 In June 1990, Peat Marwick Thorne provided us with their auditor's report on the financial statements and told us they would not be able to provide the other required reports. They said they first wanted to read the reports of others involved in investigations of the Company. At the date of this report, Peat Marwick Thorne have not provided us with the required reports. They told us they have not had access to the reports of others.

.04 Ernst & Young were appointed to do a special examination of the Company. After several months of asking, we were not successful in obtaining the report of Ernst & Young. Therefore, in December 1990, according to the Premier's memorandum of June 6, 1989, we wrote to the Chairman of the Crown Investments Corporation of Saskatchewan about this matter.

.05 In January 1991, the Chairman told us that the Public Prosecutions Division of the Department of Justice was concerned that the release of the report would interfere with the rights of the accused persons to obtain a fair trial. The Chairman also advised that he asked the Deputy Minister of Justice to look into the matter to see what could be done.

.06 In February 1991, Ernst & Young was informed that Public Prosecutions Division had removed their objection to the release of the report on the basis that there would be no prejudice to the accuseds' rights to a fair trial. Subsequently, Ernst & Young wrote to the Minister responsible for STC seeking permission to release their report to us. As of March 8, 1991 we have not received their report.

.07 Subsequently, we were advised that the Company's lawyer has raised objections with the Department of Justice and Ernst and Young concerning the legality of the release of the report. These objections are under review.

.08 The Provincial Auditor Act requires us to do additional audit work when we cannot rely on the report of an appointed auditor to fulfil our duties. Because we have not received the required reports, we have no report to rely on for the purpose of this annual report.

.09 We explain in Chapter 2 paragraph .16 that it is not possible to conduct additional audit work on a Company's management control procedures once the year end has passed. Audit work on control systems needs to be done during the year or shortly after because of the need to observe how control systems actually operate. For this reason, in cases where we are unable to rely on the reports of appointed auditors Members of the Legislative Assembly will not receive the information required under The Provincial Auditor Act.

.10 We will continue to seek the reports of the appointed auditors. However, if we do not obtain them, we intend to conduct additional audit work during the next year to report to the extent possible.

CHAPTER 35

TEACHERS' SUPERANNUATION COMMISSION

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CHAPTER 35

TEACHERS' SUPERANNUATION COMMISSION

.01 The Teachers' Superannuation Commission manages the Teachers' Superannuation Fund (Fund) and the Teachers' Annuity Fund (Annuity Fund).

Uncertainty Regarding the Minister of Finance's Contributions

.02 Our 1987 annual report contains comments on the money to be paid by the Minister of Finance to the Fund. The report states that there was a need to clarify the law regarding the amount the Minister has to pay to the Fund. This matter has not been clarified and is reported again.

.03 Section 18 of the Teachers' Superannuation Act governs the payments the Minister must make to the Fund. The Minister must pay an amount equal to the contributions received from teachers. The Minister also must pay any additional amounts required by subclauses 18(1)(a)(i) and 18(1)(a)(iii).

.04 Subclause 18(1)(a)(i) states:

> *"The Minister of Finance shall cause to be paid into the Teachers' Superannuation Fund sufficient money, as may be required from time to time, to make it possible at all times to pay the allowances granted under this Act or a former Act;...."*

.05 This subclause is subject to interpretation. It could mean the Minister can pay money into the Fund using the present funding practice. It could also mean the Minister could change the funding practice at any time and still be within the law if the Fund was able to meet allowances currently due to pensioners and the minimum balance of the Fund was maintained as required by subclause 18(1)(a)(iii).

.06 Subclause 18(1)(a)(iii) requires the Minister to pay additional money into the Fund when the assets of the Fund are less than the amount set out in subsection 14(1) of the Act.

.07 Subsection 14(1) of the Act requires the

Commission to have a minimum amount of assets in the Fund. The assets cannot be less than the accumulated contributions and interest for teachers who have not yet retired. At June 30, 1989, the assets in the Fund were $177 million more than necessary under this subsection.

.08 The Commission does not take the surplus assets under subsection 14(1) of the Act into account when it calculates the amount due from the Minister under subclause 18(1)(a)(i) of the Act.

.09 The Commission obtained legal advice in 1986 to ensure it was operating within subclause 18(1)(a)(i) of the Act. The Commission's legal advice states this subclause is unclear and should be changed to reflect clearly the intentions of the Legislature.

.10 Because of the lack of clarity in this legislation, we are unable to form an opinion as to whether the amount paid to the Fund is the amount intended by the Legislature. Therefore, we continue to recommend a change to the Act so that it sets out clearly the amount the Minister must pay to the Fund.

Deficit on Annuity Underwriting

.11 The Act requires the Commission to underwrite annuities payable to teachers out of the Annuity Fund. When an annuity contract is written, the Commission sets aside money within the Annuity Fund to make the future payments. Due to uncertainties related to future trends and events such as investment earnings and changes in mortality rates the amount set aside may be insufficient to make future payments.

.12 The law does not specify the source of funding for any future deficiency.

.13 We have reported this matter in past years. We report the matter again as the number of pensioners being paid from this Fund is increasing. The deficit from annuity underwriting at June 30, 1989 was $54,274 and is increasing.

.14 We recommend a change to the law to specify the handling of deficits and surpluses.

.15 The government has stated it intends to change the law so its responsibilities for the Annuity Fund are transferred to the Saskatchewan Teachers' Federation effective July 1, 1991. This statement of intent forms part of the Provincial Collective Bargaining Agreement between teachers, trustees and the government signed October 1990.

CHAPTER 36

THE SASKATCHEWAN GOVERNMENT PRINTING COMPANY

Gain on Sale of Fixed Assets and Inventory

.01 The Provincial Auditor Act requires us to give details of any reservation of opinion made in our auditor's report. Our opinion on the financial statements of the Company for the year ended December 31, 1989 contains a reservation.

.02 The Company sold its property, plant and equipment (fixed assets) and inventory during the year. The Company reported the sale of the fixed assets as an extraordinary gain of $235,786 in the Company's financial statements for the year ended December 31, 1989.

.03 Our audit found the extraordinary gain was $39,368 for the sale of the fixed assets and inventory. The gain recorded in the financial statements is incorrect because it does not include the value of the inventory. Generally accepted accounting principles (GAAP) require the extraordinary item to be reported as the difference between the proceeds of the sale and the book values of all the assets sold.

.04 If the Company had reported the sale using GAAP, the operating costs, loss before extraordinary item and extraordinary item in the statement of operations and deficit would have been reduced by $196,418. However, the net loss for the year is reported correctly.

Appointed Auditor's Report

.05 The appointed auditor accepted the way the Company reported the sale of the fixed assets and inventory. In our opinion, the Company's financial statements did not record the sale of the fixed assets and inventory in accordance with GAAP.

.06 The Provincial Auditor Act requires us to conduct additional audit procedures when we are unable to rely on the report of an appointed auditor.

.07 The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct additional audit procedures to discharge our responsibilities.

CHAPTER 37

WESTERN DEVELOPMENT MUSEUMS

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Controls Over Investments .05
Controls Over Inventory .09

CHAPTER 37

WESTERN DEVELOPMENT MUSEUMS

.01 We observed the following deficiencies in management's control systems to safeguard public money.

Controls Over Cash Receipts

.02 Management's rules and procedures were not sufficient to ensure cash received at branch offices was deposited in the Museum's bank account.

.03 Branch offices submit a monthly management report supported by cash register tapes to head office. The report shows the cash deposited in the Museum's bank account. Head office staff did some checking of the tapes, however, they did not check to ensure they had all of the tapes used during the month.

.04 Because head office staff do not ensure they have all of the cash register tapes, undeposited cash receipts at branch offices could go undetected.

Controls Over Investments

.05 Management's rules and procedures were not sufficient to safeguard and control investments. The rules and procedures did not adequately segregate staff duties. Segregation of duties is necessary to ensure no one person can misapply assets without timely detection.

.06 Management has not adequately segregated the following duties. One employee is responsible for initiating buy and sell transactions and performing the buying, selling and accounting functions for investments. This employee also has access to those investments stored in the safe on the Museum's premises.

.07 We also observed that access to the investments stored in the safe on the Museum's premises was not adequately restricted. Three employees had access to the investments in the safe.

.08 This deficiency allows investments to be lost or stolen without timely detection.

Controls Over Inventory

.09 Management's rules and procedures were not sufficient to control and safeguard inventories for resale.

.10 To ensure accountability for and control over inventory, management should keep inventory records or use other procedures such as standard markups on inventory purchases. Management also should establish guidelines for inventory purchases at each museum.

.11 Management conducts a year end physical count of inventory. However, management does not have inventory records or another means of determining the amount of inventory that should be at each museum.

.12 These deficiencies in the control procedures allow the inventory or the cash from the sale of inventory to be misapplied without detection.

APPENDIX I

An Act respecting the Provincial Auditor and the Auditing of Certain Accounts

SHORT TITLE AND INTERPRETATION

1 This Act may be cited as The Provincial Auditor Act.

2 In this Act:

(a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;

(a.1) "appointed auditor" means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) "Crown" means Her Majesty the Queen in right of Saskatchewan;

(d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown.

APPOINTMENT AND OFFICE

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) Repealed.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly.

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less then his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund.

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary.

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) The Public Service Superannuation Act and The Superannuation (Supplementary Provisions) Act apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or funds established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office.

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements

applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly.

DUTIES AND POWERS

11(1) The provincial auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(3) Where the provincial auditor has performed additional audit work on the accounts

of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

(a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work he conducted; and

(c) the results of the additional audit work.

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservations of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

14 Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, his annual report prepared pursuant to section 12 and any special report that is prepared by him pursuant to section 13; and

(b) the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled

corporation for which there is an appointed auditor.

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act,

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself that the securities described in clause (a) have been properly cancelled; and

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

AUDIT COMMITTEE

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure.

21 On the request of the provincial auditor or the Minister of Finance, the chairman of

the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee.

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the result of any audit or examination made by him.

23 The provincial auditor shall present to the audit committee:

(a) his annual report; and

(b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker.

GENERAL

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

25 The provincial auditor may examine any person or any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination,

he may exercise all the powers of commissioners under The Public Inquiries Act.

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

27(1) An accountant, who is:

(a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;

(b) not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and

(c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office.

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act, and

(b) shall not communicate those matters to any person, other than when he is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

(iii) any proceedings in a court of law.

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose.

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to The Department of Finance Act, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

APPENDIX II

Reports of Appointed Auditors - Part I

The following is a list of Crown agencies where the appointed auditors' reports indicated there was nothing of significance to report in accordance with Section 12 of The Provincial Auditor Act. As mentioned in Chapter 2 paragraph .19, the contents of these reports have not been reproduced because this annual report is an exception report.

We have reported earlier in the report where we have determined that we were unable to rely on the reports of the appointed auditors.

Crown Agency	Appointed Auditor
CAMECO (1988 and 1989)	Peat Marwick Thorne
Carlton Trail Regional College	E.J.C. Dudley & Co.
CIC Industrial Interests Inc.	Ernst & Young
Crown Investments Corporation of Saskatchewan Pension Plan	
Retirement Income Fund	Ernst & Young
Pension Fund	Ernst & Young
Cumberland Regional College	Armstrong & Neumann
Cypress Hills Regional College	Stark & Company
Municipal Financing Corporation of Saskatchewan	E.J.C. Dudley & Co.
Northern Forest Operations Ltd.	Price Waterhouse
NorthWest Regional College	Beggs, Downie, Meena, Johnson & Gress
Parkland Regional College	Skilnick & Partners
Potash Corporation of Saskatchewan (1987, 1988 and 1989)	Deloitte & Touche
Power Corporation Superannuation Fund	Ernst & Young
Provincial Gas Limited	Ernst & Young
Saskatchewan Auto Fund	Coopers & Lybrand
Saskatchewan Communications Advanced Network Authority	Coopers & Lybrand
Saskatchewan Crop Insurance Corporation	Peat Marwick Thorne
Saskatchewan Development Fund	Arscott & Partners
Saskatchewan Development Fund Corporation	Arscott & Partners
Saskatchewan Economic Development Corporation	Deloitte & Touche
Saskatchewan Energy Corporation	Ernst & Young
Saskatchewan Government Insurance	Coopers & Lybrand
Saskatchewan Government Insurance Superannuation Fund	Coopers & Lybrand
Saskatchewan Government Printing Company	Mintz & Wallace
Saskatchewan Grain Car Corporation	Skilnick & Partners
Saskatchewan Minerals	Burroughs, Weber & Partners
Saskatchewan Mining Development Corporation	Ernst & Young
Saskatchewan Telecommunications	Deloitte & Touche

Crown Agency	Appointed Auditor
Saskatchewan Telecommunications Superannuation Fund	Deloitte & Touche
Saskatchewan Water Corporation (1988)	Peat Marwick Thorne
South East Regional College	E.J.C. Dudley & Co.
Souris Basin Development Authority	Matchett Potts & Seipp
The Agricultural Development Fund	Horachek Cannam Joa
The Future Corporation	Horachek Cannam Joa
Trans Gas Limited	Ernst & Young
Westank Industries Ltd.	Deloitte & Touche
Westbridge Computer Corporation (1988, 1989 and 1990)	Peat Marwick Thorne
Workers' Compensation Board	Peat Marwick Thorne
Workmen's Compensation Board Superannuation Fund	Peat Marwick Thorne

Reports of Appointed Auditors - Part II

Where the appointed auditors' reports indicated there were matters to be reported in accordance with Section 12 of The Provincial Auditor Act, the contents of these reports are reproduced in this Part.

We have reported earlier in this report where we have determined that we were unable to rely on the reports of the appointed auditors.

The contents of the following reports are included:

	Page #
Agricultural Credit Corporation of Saskatchewan (March, 1989)	3
Agricultural Development Corporation (December, 1988)	4
Crown Investments Corporation of Saskatchewan (December, 1989)	7
Northlands Career College (June 1988 and 1989)	8
Prairie West Regional College (June, 1989)	11
Saskatchewan Forest Products Corporation (October, 1989)	12
Saskatchewan Housing Corporation (December, 1988)	14
Saskatchewan Indian Regional College (June, 1989)	15
Saskatchewan Institute of Applied Science and Technology (June, 1989)	17
Saskatchewan Liquor Board (March, 1990)	19
Saskatchewan Pension Plan (December 1988 and 1989)	22
Saskatchewan Power Corporation (December, 1989)	24
Saskatchewan Property Management Corporation (March 1989 and 1990)	24

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN
YEAR ENDED MARCH 31, 1989

We have made a study and evaluation of the system of internal control of Agricultural Credit Corporation of Saskatchewan in effect as at March 31, 1989. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Credit Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Credit Corporation of Saskatchewan as at March 31, 1989 which in our opinion resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Corporation may occur and not be detected within a timely period.

Livestock Cash Advance Program - Herd Inspection Procedures

Procedures applied are not considered sufficient to determine that amounts due to the Corporation as a result of herd reductions are being collected or assessed interest on a timely basis. In our opinion this weakness in internal control could result in more than a relatively low risk that revenues in amounts that would be material would fail to be assessed and collected resulting in losses to the Crown.

Computer Environment Controls

General controls over the computer processing environment were found to be lacking in the following areas:

i) The Corporation does not maintain an adequate segregation of duties between development, enhancement and maintenance activities and control over the production system which could result in a data processing environment which is not conducive to the preparation of reliable financial information.

ii) Controls over changes to production applications are not formalized and documented. This could result in inaccurate or unauthorized changes to application software affecting the reliability of financial information processed through the system. In addition, security access controls in place do not provide an audit trail of changes to production programs and data nor of changes to system security tables. Lack of an audit trail makes it difficult or impossible to identify or trace unauthorized changes to programs and security codes.

iii) The Corporation's back-up procedures do not provide for retention of the back-up media for a sufficient period of time to allow for an efficient recovery of information in the event of a system failure. Further, the Corporation has not documented and tested a disaster recovery plan for its computerized operations. In the event of damage or destruction of the system the Corporation may find it difficult or impossible to recover in a timely and economic manner.

Price Waterhouse
March 26, 1990

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN
YEAR ENDED DECEMBER 31, 1988

We have made a study and evaluation of the system of internal control of Agricultural Development Corporation of Saskatchewan in effect as at December 31, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Development Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

- *the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;*

- *all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;*

- *transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and*

- *essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.*

Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Development Corporation of Saskatchewan as at December 31, 1988 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Corporation may occur and not be detected within a timely period:

Documentation and Management Supervisory Controls

The Corporation does not maintain either accounting or computer procedures manuals nor a job description manual. As a result, changes in staff or staff duties could lead to a breakdown in accounting control procedures including the inability of management personnel to readily determine their supervisory responsibilities.

This matter was reported in the prior year and while the corporation has begun preparation of these manuals, they were not yet completed at the year end date.

Segregation of Duties

Due to the limited staff size of the corporation, complete segregation of duties is not practical. As a consequence, some functions which would normally be segregated may be performed by the same individual. The Board of Directors were not involved in day-to-day operations of the corporation. The company did not have an adequate system to ensure the completeness of recorded revenues. Furthermore, the corporation did not have adequate alternative procedures to prevent or detect possible errors or unauthorized transactions which may occur. In this situation it is possible that an error or fraud which may be material in relation to the corporation may occur and not be detected within a timely period.

Price Waterhouse
January 5, 1990

We have examined the financial statement of Agricultural Development Corporation of Saskatchewan for the year ended December 31, 1988 and have issued our report dated February 7, 1989 thereon to the Legislative Assembly. We have examined the system of internal control as at December 31, 1988 and have issued our report to the Provincial Auditor dated January 5, 1990. We have also made an examination of related authorities pertaining to its financial reporting, *safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1988 and have issued our report to you dated January 5, 1990. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which:*

1. *any officer or employee of Agricultural Development Corporation of Saskatchewan has wilfully or negligently omitted to collect or receive public money belonging to the Crown;*

2. *there has been a deficiency or loss to the Crown through default or mistake of any person; and*

3. *any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.*

During our examination, nothing came to our attention that would indicate that; (1) any officer or employee of Agricultural Development Corporation of Saskatchewan has wilfully or negligently omitted to collect or receive public money belonging to the Crown or that, (2) there has been a deficiency or loss to the Crown through default or mistake of any person. However, during our examination we noted the following matter which in our opinion occurred as a result of a lack of probity and prudence and which we believe should be brought to your attention.

> *A significant loss in Crops Division resulted primarily from an "unusual" loss on canary seed. The Corporation had booked sales of significant amounts of canary seed at fixed prices and failed to secure back-to-back purchase contracts. Subsequent to booking the sales contracts, the price rose sharply due to market conditions. At year end a significant portion of total sales contracts remained exposed, due to continuing adverse trading conditions; and the corporation, therefore, recognized an unrealized loss in the amount of $534,000 on total 1988 canary operations.*

In our opinion this condition arose primarily due to the lack of written policy and procedure manuals which would have clearly defined the company's procedures and responsibilities for taking such a position. The situation remained undetected for a period of time primarily due to the lack of segregation of duties surrounding the booking of sales contracts, purchase contracts and the reporting of the company's position. Although the company had provided verbal instructions covering such matters, without written documentation of specific procedures, responsibility for carrying out such procedures is not clearly defined.

Price Waterhouse
January 5, 1990

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN YEAR ENDED DECEMBER 31, 1989

We have, with regard to Crown Investments Corporation of Saskatchewan examined and reported without reservation to the Legislative Assembly on:

- *the financial statements for the year ended December 31, 1989*

- *the system of internal control as at December 31, 1989*

- *compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1989*

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examinations, we found the following:

1) *Subsection 33(3) of The Crown Corporations Act, 1978, requires the Minister in charge, in accordance with the Tabling of Documents Act, to table the annual report before the Legislative Assembly fifteen sitting days after April 30 of the year following the corporation's year end.*

2) *Members of the Board of Directors of CIC are appointed by Order in Council as required by subsection 23(2) of the Crown Corporations Act, 1989. The Orders in Council have not specified the remuneration and expense to be paid to the members of the Board.*

   In the opinion of the Corporation's legal counsel, remuneration and expense is not required to be specified in Orders in Council. Legal counsel for the Provincial Auditor has expressed a contrary view.

   This is a legal issue on which differing legal views exist. In these circumstances we are unable to determine whether CIC had appropriate legislative authority for payments made to its Board members although we understand CIC will seek Orders in Council to authorize future payments to members of the Board to resolve any doubt on the issue.

During the audit it was noted that the Minister did not submit the December 31, 1988 annual report to the Legislative Assembly within the fifteen sitting days after April 30 as permitted by law.

In our opinion, except for the matters referred to in the preceding paragraph, Crown Investments Corporation of Saskatchewan has complied in all significant respects with the legislative and related authorities specified.

Based on our examinations referred to in this report, there are no matters other than those reported herein that we consider to be of significance and of a nature which we believe should be brought *to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of the Provincial Auditor Act.*

Ernst & Young
March 30, 1990,
except for 2) above
as of March 8, 1991

NORTHLANDS CAREER COLLEGE
YEAR ENDED JUNE 30, 1988

We have made a study and evaluation of the system of internal control of the Northlands Career College in effect as at June 30, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The Management of Northlands Career College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) The Accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) All public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) Transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) Essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the systems of internal control of Northlands Career College as at June 30, 1988 which in our opinion, resulted in a more than a *relatively low risk that errors or fraud in amounts that would be material in relation to Northlands Career College may occur and not be detected within a timely period:*

The program accounts receivable account is not monitored and reconciled on a monthly bases. Accounts receivable are recorded for all program expenditures as incurred, however, the receipt of monies from the funding agencies is not reconciled to the actual amounts recorded as receivable resulting in a balance in the general ledger account receivable account which is unreconciled. In preparing annual financial statements significant adjustments are required to this account. While reliable information is available for use in the preparation of the financial statements the account is not properly kept to allow for the preparation of reliable financial statements on a timely basis.

The above weakness is a result of the absence of control procedures as opposed to non-compliance with the control procedures.

The weakness stated could result in accounts receivable not being followed up in a timely manner which could result in inappropriate and incorrect information being provided to the Board of Directors for decision making.

Deloitte Haskins & Sells
May 2, 1990

NORTHLANDS CAREER COLLEGE
YEAR ENDED JUNE 30, 1989

We have made a study and evaluation of the system of internal control of the Northlands Career College in effect as at June 30, 1989. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The Management of Northlands Career College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) The accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with appropriate basis of accounting;

b) All public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) Transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) Essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the systems of internal control of Northlands Career College as at June 30, 1988 (sic) which in our opinion, resulted in a more than a relatively low risk that errors or fraud in amounts that would be material in relation to Northlands Career College may occur and not be detected within a timely period:

The program accounts receivable account is not monitored and reconciled on a monthly basis. Accounts receivable are recorded for all program expenditures as incurred, however, the receipt of monies from the funding agencies is not reconciled to the actual amounts recorded as receivable resulting in a balance in the general ledger account receivable account which is unreconciled. In preparing annual financial statements significant adjustments are required to this account. While reliable information is available for use in the preparation of the financial statements the account is not properly kept to allow for the preparation of reliable financial statements on a timely basis.

The above weakness is a result of the absence of control procedures as apposed to non-compliance with the control procedures.

The weakness stated could result in accounts receivable not being followed up in a timely manner which could result in inappropriate and incorrect information being provided to the Board of Directors for decision making.

Deloitte Haskins & Sells
May 2, 1990

We have made an evaluation to determine whether Northlands Career College complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended June 30, 1989:

Regional Colleges Act
Public Service Act
Financial Administration Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Ministerial approval was not received for the purchase of real property in the amount of $35,103.00.

In our opinion, except for the failure to obtain ministerial approval for the purchase of real property as described in the proceeding paragraph, Northlands Career College has compiled, in all significant respects with the provisions of the aforementioned legislation and related authorities during the year ended June 30, 1989.

Deloitte Haskins & Sells
May 2, 1990

PRAIRIE WEST REGIONAL COLLEGE
YEAR ENDED JUNE 30, 1989

I have made a study and evaluation of the system of internal control of Prairie West Regional College in effect as at June 30, 1989. My study and evaluation was conducted in accordance with generally accepted standards and accordingly, included such tests and other procedures as I considered necessary in the circumstances.

The Management of Prairie West Regional College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) *the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;*

b) *all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;*

c) *transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and*

d) *essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.*

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

My study and evaluation disclosed the following conditions in the system of internal control of Prairie West Regional College as at June 30, 1989 which in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Prairie West Regional College may occur and not be detected within a timely period:

(1) Revenue, Receivables and Receipts

Our review of the revenue, receivables, receipts function disclosed a weakness in the system whereby this entire function is often performed by one person from cradle to grave. This situation arises because of a lack of accounting personnel. Many times, one person performs all of the following functions:

- *prepares invoices*
- *receives receipts*
- *records receipts*
- *prepares bank deposit*
- *makes bank deposit*
- *prepares adjusting entries*
- *posts to the general ledger*
- *controls receivables and receipts*

In our opinion, this weakness exists due to an absence of control. Consequently, funds could remain unbilled, uncollected, undeposited or misappropriated. However, compliance and substantive testing indicated no errors.

Gilchrist & Co.
June 13, 1990

SASKATCHEWAN FORESTS PRODUCTS CORPORATION
YEAR ENDED OCTOBER 31, 1989

We have made a study and evaluation of the system of internal control of Saskatchewan Forest Products Corporation in effect as at October 31, 1989. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Saskatchewan Forest Products Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures.

Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following condition in the system of internal control of Saskatchewan Forest Products Corporation as at October 31, 1989 which in our opinion, resulted in more than relatively low risk that errors or fraud in amounts that would be material in relation to Saskatchewan Forest Productions Corporation may occur and not be detected within a timely period:

> *Management reviews of financial statements and accounting records were not performed in sufficient detail nor on a timely basis to detect errors or irregularities in the accounts which would be material to the operations of the company. In this respect, the system of internal control at Saskatchewan Forest Products Corporation did not provide management with reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with generally accepted accounting principles.*

Price Waterhouse
December 7, 1989

SASKATCHEWAN HOUSING CORPORATION
YEAR ENDED DECEMBER 31, 1988

We have made an examination to determine whether Saskatchewan Housing Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1988:

The Saskatchewan Housing Act
The Financial Administration Act
The Crown Corporations Act
The National Housing Act
The Tabling of Documents Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We observed that the Saskatchewan Housing Corporation had not received approval by December 31, 1988 for a loan received in 1986 from a Chartered Bank. Approval of such a loan is required from the Lieutenant Governor in Council under the Saskatchewan Housing Corporations Act and from the Minister of Finance under the Department of Finance Act. The total amount outstanding on this loan at December 31, 1988 was $795,000.

In our opinion, except for the lack of approval as noted above, Saskatchewan Housing Corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1988.

Peat Marwick
April 4, 1989

We have examined the financial statements of the Saskatchewan Housing Corporation for the year ended December 31, 1988 and have issued our report dated April 4, 1989 thereon to you. We have examined the system of internal control as at December 31, 1988 and issued our report to you dated April 4, 1989. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of the Saskatchewan Housing Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouched or certified; and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

Our examination disclosed the following matters that in our opinion should be brought to your attention:

1. Home Improvement Program - Grants Payments

During our review and audit of grant payments made by the corporation under the Home Improvement Program we discovered a number of errors resulting in incorrect payments having been made. Specifically, payments totalling $22.33 were made on invoices dated prior to the program implementation date of September 1, 1986. Additionally, clerical errors were found resulting in overpayments totalling $3,643.13 and underpayments totalling $474.94.

The above noted errors totalling a net combined actual and potential overpayment of $3,190.52 were found in a total sample of 797 grant payments totalling $839,286.38 in payments, selected on a monetary unit sampling basis.

2. Special Warrants

During 1988 special warrants authorized the payment of $28,100,000 under the Home Improvement Program.

In our opinion, except for the matters referred to above, the Saskatchewan Housing Corporation has complied, in all significant respects, with the provisions of Section 12(1) of the Provincial Auditor's Act as amended.

Peat Marwick
April 4, 1989

SASKATCHEWAN INDIAN REGIONAL COLLEGE
YEAR ENDED JUNE 30, 1989

We have made an examination to determine whether the Saskatchewan Indian Regional College complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended June 30, 1989:

The Regional Colleges Act and Regulations
The Department of Finance Act, 1983
The Regional Colleges Accounting and Reporting Manual

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Saskatchewan Indian Regional College has not complied with the provisions of the aforementioned legislative and related authorities during the year ended June 30, 1989 in the instances noted below:

Regional Colleges Act and Regulations	*Relevant Section*
- *There are ten members on the board instead of the prescribed four to seven. Seven of the members have been approved by the Lieutenant Governor in Council and three are acting without approval.*	*7(2)*
- *Budgets are not approved by the Minister prior to adoption.*	*15(2)*
- *The appointment of auditors is not approved by the Minister of Education.*	*17(1)*
- *Board members can serve for an unlimited length of time instead of the prescribed two terms.*	*5*
- *The college's line of credit has not been approved by the Minister of Education.*	*21(1)*
- *The purchase of term deposits was not approved by the Minister of Education.*	*23*
- *Not all cheques are signed by the Treasurer and one other signing officer.*	*18(2)*
Department of Finance Act, 1983	
- *The college's line of credit has not been approved by the Minister of Finance.*	*41*
- *The college's personnel policy has not been approved by the Minister of Education.*	*Reg 7(4)*
- *Permanent employees are not covered by a type of superannuation plan.*	*Reg 13(2)*
Regional Colleges Accounting and Reporting Manual	
- *The college records depreciation on its fixed assets (excluding land).*	

Price Waterhouse
September 13, 1989

SASKATCHEWAN INSTITUTE OF APPLIED SCIENCE AND TECHNOLOGY
YEAR ENDED JUNE 30, 1989

We have made a study and evaluation of the system of internal control of Saskatchewan Institute of Applied Science and Technology in effect as at June 30, 1989. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Management of Saskatchewan Institute of Applied Science and Technology is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of the Provincial Auditor's Act, we were required to determine that there was a system of internal control in effect which provided management with reasonable, but not absolute assurance that:

a) the accounts have been faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) public money has been fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions have been executed in accordance with management's authorization, public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records have been maintained and the rules and procedures applied were sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, except as explained in the following paragraphs, the system of internal control of Saskatchewan Institute of Applied Science and Technology in effect as at June 30, 1989, taken as a whole, was sufficient to meet the objectives stated insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material as defined by the Provincial Auditor.

> *Procedures with respect to timely billing of contract revenue were not consistently adhered to, which could result in the understatement of contract revenue.*
>
> *Procedures for adequate documentation and approval of journal entries were not consistently complied with, which could result in misstatement in the accounts.*
>
> *Segregation of duties at corporate office between receipt of funds and access to accounting records was inappropriate.*

Actual costs incurred were not always recorded in the cost centre in which the cost was budgeted. This limited the ability of management to utilize the controls implicit in variance analysis and exception reporting.

Procedures for cancelling invoices when paid were not always complied with which could result in duplicate payments.

Procedures for the backup and retention of data stored on computer tapes were not adequate to ensure restoration of the data files in the event of a disaster.

System security over the information retrieval utility software was not adequate to ensure that system users could not bypass the normal system authorizations and edits. This could result in unauthorized changes to the data files.

Deloitte & Touche
November 30, 1989

We have made an examination to determine whether Saskatchewan Institute of Applied Science and Technology complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended June 30, 1989:

The Institute Act
Orders in Council, pursuant to the above legislation
Board of Directors' bylaws, policies and directives
The Tabling of Documents Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The Institute is prohibited from incurring a deficit, unless approved by the Minister, by section 20 of The Institute Act. This Act does not specify the basis of accounting to be used by the Institute for purposes of defining a deficit. The Institute has chosen to use an accrual basis of accounting, which differs from the basis of accounting used by many government organizations. At year end the Institute's deficit was $1,018,695 after accruing retroactive payroll increases in the amount of $3,424,000.

In our opinion, Saskatchewan Institute of Applied Science and Technology complied in all significant respects, except as explained in the preceding paragraph, with the provisions of the aforementioned legislative and related authorities during the year ended June 30, 1989.

Deloitte & Touche
November 30, 1989

SASKATCHEWAN LIQUOR BOARD AND LIQUOR LICENSING COMMISSION
YEAR ENDED MARCH 31, 1990

The following representations are made to you in connection with our audit examination of Saskatchewan Liquor Board and Liquor Licensing Commission for the year ended March 31, 1990.

1. *Audit of the Financial Statements of Saskatchewan Liquor Board and Liquor Licensing Commission for the year ended March 31, 1990.*

Our function as auditors is to report to the Members of the Legislative Assembly on the results of our examination of the Board and Commission's combined financial statements. This requires us to state whether, in our opinion, the combined financial statements present fairly the financial position, changes in financial position and results of operations of the Board and Commission in accordance with generally accepted accounting principles applied on a consistent basis.

Our audit was completed on June 29, 1990 on which date we issued our Auditors' Report.

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our Auditors' Report dated June 29, 1990 for the purpose of forming an opinion on the financial condition of the Government of Saskatchewan.

2. *Compliance with Specified Authorities*

In accordance with Section 11(1) of The Provincial Auditor Act, we are required to determine whether, in our opinion, public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures of Saskatchewan Liquor Board and Liquor Licensing Commission have adequate statutory authority.

In order to determine whether Saskatchewan Liquor Board and Liquor Licensing Commission complied with the undernoted legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 1990 we examined the accompanying report entitled "Management Report on Internal Control at Saskatchewan Liquor Board and Liquor Licensing Commission" dated September 14, 1990:

An audit program was designed and conducted by Deloitte & Touche to assess the Board and Commission's compliance with key provisions of the following legislation and regulations:

- *The Alcohol Control Act*
- *The Alcohol Control Regulations*
- *The Liquor Consumption Tax Act*
- *The Liquor Board Superannuation Act*
- *The Superannuation (Supplementary Provisions) Act*
- *The Financial Administration Act*
- *The Revenue and Financial Services Act*
- *The Provincial Auditor Act*

- *The Tabling of Documents Act*
- *Orders in Council, Treasury Board Policies, and Other*
- *The Excise Tax Act*
- *The Excise Act & Regulations*
- *The Customs Act, Tariff & Other*
- *The Income Tax Act*

Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the Board and Commission, discussion and enquiry concerning the application of the criteria of internal control (referred to in the attached report) in the major operating areas of the Board and Commission, evaluation and tests of internal control procedures performed as part of our audit of the combined financial statements for the year ended March 31, 1990, review of the aforementioned legislative and related authorities and such other procedures as we considered necessary in the circumstances.

In our opinion, the performance of the above procedures provides reasonable, but not absolute assurance that, except for the matter outlined in the following paragraph, Saskatchewan Liquor Board and Liquor Licensing Commission complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 1990.

As reported by the Provincial Auditor with reference to the year ended March 31, 1989, the remuneration paid to the chairman is in excess of the amount specified in Order-in-Council 371/87. A new Order-in-Council to provide authority to increase the amount specified has not been obtained, so the matter remains unresolved.

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our report for the purpose of forming an opinion on the financial condition of the Government of Saskatchewan.

3. *Study and Evaluation of the System of Internal Control.*

In order to discharge the responsibility delegated to it by the Board and Commission to manage the affairs of the Saskatchewan Liquor Board and Liquor Licensing Commission, management maintains a system of internal control. Management has issued its report dated September 14, 1990 containing its evaluation of the system of internal control for the year ended March 31, 1990 in terms of its adequacy in achieving the following objectives:

a) *the accounts have been faithfully and properly kept;*

b) *public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;*

c) *public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority;*

d) *essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.*

In order to satisfy ourselves that the system of internal control at Saskatchewan Liquor Board and Liquor Licensing Commission was sufficient to meet these objectives we examined the accompanying report entitled "Management Report on Internal Control at Saskatchewan Liquor Board and Liquor Licensing Commission" dated September 14, 1990 and reported thereon on September 14, 1990.

Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the Board and Commission, discussion and enquiry concerning the application of the criteria of internal control (referred to in the attached report) in the major operating areas of the Board and Commission, evaluation and tests of internal control procedures performed as part of our audit of the combined financial statements for the year ended March 31, 1990, and such other procedures as we considered necessary in the circumstances.

In our opinion, based on the performance of the above procedures, the system of internal control of Saskatchewan Liquor Board and Liquor Licensing Commission during the year ended March 31, 1990 taken as a whole was sufficient to provide reasonable, but not absolute assurance that the objectives stated above were achieved, insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our report for the purpose of:

a) forming an opinion on the financial condition of the Government of Saskatchewan, and

b) reporting material weaknesses in internal control to the Legislative Assembly pursuant to Section 11 of The Provincial Auditor Act.

4. Other Matters pursuant to Section 12 of The Provincial Auditor Act.

In accordance with Section 12 of The Provincial Auditor Act, we are required to identify any instances we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly.

We have examined the combined financial statements of Saskatchewan Liquor Board and Liquor Licensing Commission for the year ended March 31, 1990 and have issued our report dated June 29, 1990 thereon to the Legislative Assembly. We have examined the system of internal control for the year ended March 31, 1990 and have issued our report dated September 14, 1990. We have also made an examination to determine whether Saskatchewan Liquor Board and Liquor Licensing Commission complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended March 31, 1990 and have issued our report dated September 14, 1990. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In no instances, did our study and evaluation of internal control disclose conditions indicating that internal controls were inadequate or not complied with.

> *During the course of these examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of Saskatchewan Liquor Board and Liquor Licensing Commission has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.*

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our report for the purpose of reporting other matters to the Legislative Assembly pursuant to Section 12 of The Provincial Auditor Act.

The foregoing opinions have been provided to you pursuant to your responsibilities under The Provincial Auditor's Act, and are intended for your exclusive information. We request that copies of this letter or extracts therefrom not be released to anyone who is not employed within your office without the prior consent of Deloitte & Touche.

Deloitte & Touche
January 20, 1991

SASKATCHEWAN PENSION PLAN
YEAR ENDED DECEMBER 31, 1988

We have, with regard to Saskatchewan Pension Plan, examined and reported to the Legislative Assembly:

- *without reservation on the financial statements for the year ended December 31, 1988;*
- *without reservation on the system of internal control as at December 31, 1988;*
- *with reservation, as described in the following paragraph, on compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1988.*

Our examinations were made in accordance with generally accepted auditing standards and accordingly included such test and other procedures as we considered necessary in the circumstances.

Subsection 20(2) of the Saskatchewan Pension Plan Act requires the Plan to submit an annual report of the Board of Trustees and related financial statements ("annual report") in accordance with The Tabling of Documents Act. The December 31, 1988 annual report was tabled on March 20, 1990. It was required to be tabled on April 21, 1989.

Based on the examinations referred to in this report, except for the failure to submit an annual report in accordance with The Tabling of Documents Act as described in the preceding paragraph, there are no matters that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to section 12(1) subsections (a) through (g) of The Provincial Auditor Act.

Ernst & Young
October 13, 1989

SASKATCHEWAN PENSION PLAN
YEAR ENDED DECEMBER 31, 1989

We have, with regard to Saskatchewan Pension Plan, examined and reported to the Legislative Assembly:

- *without reservation on the financial statements for the year ended December 31, 1989;*
- *without reservation on the system of internal control as at December 31, 1989;*
- *with reservation, as described in the following paragraph, on compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1989.*

Our examinations were made in accordance with generally accepted auditing standards and accordingly included such test and other procedures as we considered necessary in the circumstances.

Subsection 20(2) of the Saskatchewan Pension Plan Act requires the Plan to submit an annual report to the Board of Trustees and related financial statements ("annual report") in accordance with The Tabling of Documents Act. The December 31, 1989 annual report was tabled on June 22, 1990. It was required to be tabled on April 24, 1990.

Based on the examinations referred to in this report, except for the failure to submit an annual report in accordance with the Tabling of Documents Act as described in the preceding paragraph, there are no matters that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to section 12(1) subsections (a) through (g) of the Provincial Auditor Act.

Ernst & Young
October 11, 1990

SASKATCHEWAN POWER CORPORATION
YEAR ENDED DECEMBER 31, 1989

We have, with regard to Saskatchewan Power Corporation, examined and reported to the Legislative Assembly:

- *with reservation, as described in the following paragraph, on the financial statements for the year ended December 31, 1989;*
- *without reservation on the system of internal control as at December 31, 1989;*
- *without reservation on compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1989.*

Our examinations were made in accordance with generally accepted auditing standards and accordingly included such test and other procedures as we considered necessary in the circumstances.

Effective December 31, 1989, the Corporation sold its investment in a wholly-owned subsidiary to its parent and recorded an extraordinary gain amounting to $226 million. Had the investment been sold to a non-related party, the Corporation's treatment would be in accordance with generally accepted accounting principles. However, as the investment was sold to a related party, in our opinion the gain should have been recorded as an equity advance.

Based on the examinations referred to in this report, except the inclusion in net income of the gain on sale of investment to the Corporation's parent as referred to in the preceding paragraph, there are no matters that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to section 12(1) subsections (a) through (g) of the Provincial Auditor Act.

Ernst & Young
February 9, 1990

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION
YEAR ENDED MARCH 31, 1989

We have made a study and evaluation of the system of internal control of Saskatchewan Property Management Corporation in effect as at March 31, 1989. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

Management of Saskatchewan Property Management Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgment by management are required to assess the expected benefits and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of The Provincial Auditor's Act, we are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

- *the accounts have been faithfully and properly kept;*
- *public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;*
- *public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority;*
- *essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.*

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Saskatchewan Property Management Corporation in effect as at March 31, 1989, taken as a whole was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material except as follows:

Budget

The Board of Directors of Saskatchewan Property Management Corporation did not approve the Corporation's budget for the year ending March 31, 1989. Although there was discussion of the budget, actual approval of the operating plan was not made. Such approval is required to effectively complete the budgetary process.

Saskatchewan Regulation 10/76 pursuant to The Purchasing Act

Section 28 of Saskatchewan regulation 10/76 permits public agencies to purchase supplies without prior approval of the purchasing agency if certain emergency conditions were met as set out in section 27.

The purchasing agency had procedures in place to follow up on any emergency purchase orders by obtaining explanation for such purchases. However, no further action was taken when the *explanation did not meet the conditions set out in section 27. As such, internal control procedures were not adequate with respect to emergency purchase orders.*

Deloitte Haskins & Sells
June 22, 1989

We have made an examination to determine whether the Saskatchewan Property Management Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing, and investing activities during the year ended March 31, 1989:

-The Saskatchewan Property Management Corporation Act;
-The Department of Finance Act, 1983;
-The Purchasing Act;
-Saskatchewan Regulation 10/76 made pursuant to The Purchasing Act;
-The Queen's Printer's Act; and
-Orders in Council, pursuant to the above legislation.

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, except as noted in the following pages, the corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 1989.

1. *Saskatchewan Regulation 10/76 made pursuant to The Purchasing Act*

A sample of Local Purchase Orders (LPOs) were examined at the Purchasing Agency and several instances were noted where public agencies purchased supplies without prior approval of the purchasing agency. Section 28 of Saskatchewan Regulation 10/76 permits public agencies to purchase supplies without prior approval of the Agency under emergency situations defined in Section 27.

However, while most of these purchases would be considered emergencies in the normal context of the word, some did not fit the restrictive definitions of Section 27.

Section 6(1) allows the director of the agency to take disciplinary action if an employee of a public agency wilfully acquires supplies in contravention of any provisions of the Act. None of the instances we noted required such action and none such was taken by the director.

2. *The Purchasing Act*

According to section 9 of The Purchasing Act, moneys received by the Purchasing Agency from the disposition of supplies have to be deposited into the consolidated fund if the supplies were *purchased from moneys appropriated out of the consolidated fund.*

Based on an agreement with Treasury Board, SPMC has retained all moneys received from the disposition of supplies, in contravention of section 9. This money was retained in lieu of a grant from the consolidated fund to cover operating costs of Sales and Salvage, a division of the Purchasing Agency.

We also detected one instance where goods were purchased using an improper delegation of authority as outlined in the Purchasing Agency guidelines.

3. The Queen's Printer's Act

During the year ended March 31, 1989, the Queen's Printer's Act was administered by SPMC. Pursuant to Section 7 of this Act the minister is to prescribe the price of subscription to The Saskatchewan Gazette. This was not done for the year ended March 31, 1989. Management is taking steps to have the rates approved for the year ended March 31, 1990.

4. Agreement with Department of Parks and Renewable Resources

SPMC entered into an agreement with the Department of Parks and Renewable Resources for the construction of Public Works in Provincial Parks. Section 5 of this agreement requires that the Department administer the construction work and SPMC repay the department on remittance of all documents related to the initial payment. SPMC repaid the Department based only on invoices received from the Department. While this was reasonable as the Department was administering the construction work, it was not in compliance with the agreement.

Management is in the process of amending the agreement to remove this requirement.

Deloitte & Touche
April 12, 1990

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION YEAR ENDED MARCH 31, 1990

We have made an examination to determine whether the Saskatchewan Property Management Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 1990:

The Saskatchewan Property Management Corporation Act;
The Financial Administration Act;
The Purchasing Act;
Saskatchewan Regulation 10/76 made pursuant to The Purchasing Act;
The Queen's Printer's Act;

The Tabling of Documents Act;
The Members of the Legislative Assembly Conflict of Interests Act; and
Orders in Council, pursuant to the above legislation.

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Saskatchewan Regulation 10/76 made pursuant to The Purchasing Act

A sample of Local Purchase Orders (LPOs) was examined at the Purchasing Agency and several instances were noted where public agencies purchased supplies without prior approval of the Purchasing Agency. Section 28 of Saskatchewan Regulation 10/76 permitted public agencies to purchase supplies without prior approval of the Agency under emergency situations defined in Section 27.

However, while most of these purchases would be considered emergencies in the normal context of the word, some did not fit the definitions of Section 27.

Section 6(1) allowed the director of the Agency to take disciplinary action if an employee of a public agency wilfully acquired supplies in contravention of any provisions of the Act. None of the instances noted required such action and none was taken by the director.

The Purchasing Act

Section 9 of The Purchasing Act required that monies received by the Purchasing Agency from the disposition of supplies be deposited into the consolidated fund if the supplies were purchased from monies appropriated out of the consolidated fund.

Saskatchewan Property Management Corporation retained all monies received from the disposition of supplies. This money was retained in lieu of a grant from the consolidated fund to cover operating costs of Sales and Salvage, a division of the Purchasing Agency.

Agreement with Department of Parks and Renewable Resources

Saskatchewan Property Management Corporation (SPMC) entered into an agreement with the Department of Parks and Renewable Resources for the construction of Public Works in Provincial Parks. Section 5 of this agreement required that the Department administer the construction work and SPMC repay the department on receipt of all documents related to the initial payment. SPMC repaid the Department based only on invoices received from the Department. While this was reasonable as the Department was administering the construction work, it was not in compliance with the agreement.

An amending agreement which removed this requirement was signed by SPMC and the Department subsequent to March 31, 1990.

In our opinion, except for the three items noted above, the corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 1990.

Deloitte & Touche
June 20, 1990

APPENDIX III

Audits Not Completed at March 8, 1991

The Standing Committee on Public Accounts recommended an audit of every government agency every year.

Our annual report includes all audits completed for fiscal periods ended March 31, 1990 or earlier at March 8, 1991.

Since 1988 we have prepared our annual reports without completing all audits. We consider this practice necessary to improve the timeliness of the information given to the Members of the Legislative Assembly.

All audits not completed at March 8, 1991 will be completed and the results of those audits will be reported to the Legislative Assembly in our next annual report.

This Appendix is presented in two sections. The first section contains a list of government agencies where all audit procedures have not been completed. The second section contains a list of government agencies where the appointed auditors have not submitted reports to be compiled in this annual report.

SECTION I

The audits not completed at March 8, 1991 are at various stages of completion. While all audit procedures may have been conducted on the books and records of a government agency, the audit is not considered complete until we discuss the findings with management of the agency. This process is necessary to allow management a chance to comment on the audit findings before they are reported to the Legislative Assembly.

The following audits are not fully completed at March 8, 1991.

Agricultural Credit Corporation of Saskatchewan
Agricultural Development Corporation of Saskatchewan
Board of Governors - Lakeside Home
LaRonge Hospital Board
Provincial Mediation Board
Public Employees Disability Plan
Public Employees Group Life Plan
Public Service Superannuation Board
Public Employees (Government Contributory) Annuity Fund
Public Employees (Government Contributory) Superannuation Fund
Saskatchewan Government Growth Fund Ltd.
Saskatchewan Government Growth Fund Management Corporation
Saskatchewan Housing Corporation

SECTION I - Continued

Saskatchewan Water Corporation
SaskTel International Inc.
Souris Valley Regional Care Centre
The Saskatchewan Agricultural Returns Stabilization Fund
Victim's Fund

SECTION II

The appointed auditors have not submitted reports to be compiled in this annual report for the following government agencies:

586643 Sask. Ltd.
Investment Corporation of Saskatchewan
Northern Enterprise Fund Inc.
Saferco Products Inc.
Saskatchewan Transportation Company

APPENDIX IV

List of Financial Statements and/or Annual Reports Not Tabled in the Legislative Assembly in the Manner Required by Convention (see Chapter 5):

Agricultural Development Corporation (December 31, 1988)
Anti-Tuberculosis League Employees Superannuation Fund (March 31, 1989)
Board of Governors, Lakeside Home (March 31, 1989)
Crown Investments Corporation of Saskatchewan (December 31, 1988)
Doukhobors of Canada C.C.U.B. Trust Fund (May 31, 1988)
Judges of the Provincial Court Superannuation Fund (March 31, 1989)
Liquor Board Superannuation Fund (December 31, 1988)
New Careers Corporation (April 30, 1989)
* Public Employees Benefits Agency Revolving Fund (March 31, 1989)
* Public Employees (Government Contributory) Annuity Fund (March 31, 1989)
* Public Employees (Government Contributory) Superannuation Fund (March 31, 1989)
Public Service Superannuation Board (March 31, 1989)
Public Trustee (March 31, 1989)
Saskatchewan Auto Fund (December 31, 1988)
Saskatchewan Government Insurance (December 31, 1988)
Saskatchewan Heritage Fund (March 31, 1989)
Saskatchewan Housing Corporation (December 31, 1988)
Saskatchewan Institute of Applied Science and Technology (June 30, 1989)
Saskatchewan Pension Plan (December 31, 1988)
* Saskatchewan Student Aid Fund (March 31, 1989)
The Future Corporation (March 31, 1989)
* The Saskatchewan Agricultural Returns Stabilization Fund (March 31, 1989)
The Saskatchewan Beef Stabilization Board (March 31, 1989)

* These financial statements have not been subsequently tabled in the Legislative Assembly.

APPENDIX V

Examples of Opinions We Form on Departments, Crown Agencies and Crown-Controlled Corporations

1. Following is an example of the opinion we form on the adequacy of the control systems used by an agency to safeguard and control public money.

I have made a study and evaluation of the system of internal control of (name of entity) in effect as at (date). My study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as I considered necessary in the circumstances.

The Management of (name of entity) is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to my responsibilities under Section 11(1) of The Provincial Auditor Act, I am required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitation in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, the system of internal control of (name of entity) in effect as at (date), taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to (name of entity).

Or if the study and evaluation discloses conditions that, individually or in combination, result in one or more material weaknesses, the opinion paragraph should be modified as follows:

> My study and evaluation disclosed the following conditions in the system of internal control of (name of entity) as at (date) which in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to (name of entity) may occur and not be detected within a timely period:

The Report should go on to describe all material weaknesses, state whether they resulted from the absence of control procedures or the degree of compliance with them, and describe the general nature of the potential errors or fraud that may occur as a result of the weaknesses.

City

Date Signed

2. Following is an example of the opinion we form on an agency's compliance with the law regarding its spending, revenue-raising, borrowing and lending activities.

I have made an examination to determine whether (name of entity) complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended (date):

> (List legislative and related authorities covered by this report. This list must include all governing authorities.)

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, (name of entity) has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended (date).

(The report should provide adequate explanation with respect to any reservation contained in the opinion together with, if relevant and practicable, the monetary effect.)

City

Date Signed

3. Following is an example of the opinion we form on the financial statements prepared by management of an agency.

I have examined the balance sheet of (name of entity) as at (date) and the statements of income and retained earnings and cash flows for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of (name of entity) as at (date) and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

City

Date Signed